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Trade financing in developing countries: an assessment and evaluation of existing schemes and future requirements

Study by the UNCTAD secretariat

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FOREWORD

In resolution 4 (V) adopted by the Committee on Economic Co-operation among Developing Countries at its fifth session, the Committee, inter alia, called upon the Secretary General to "undertake, in cooperation with relevant international organizations, a study on the problems of trade financing in developing countries and in particular on how to further support and strengthen existing mechanisms in this area, as well as the feasibility of establishing a commercially viable interregional mechanism for financing South-South trade in non-traditional exports based on participation from developing countries and with a financial structure based on paid-in capital from participating countries, and to present the study to the first part of the thirty-seventh session of the Trade and Development Board for consideration."

In pursuance of that request, the UNCTAD secretariat sought the views of Governments and international financial institutions on several technical aspects of the proposal. In order to facilitate these consultations, a detailed questionnaire was sent to a selected number of developing countries and territories and international agencies* regarding their existing export financing arrangements and future needs. The responses to that questionnaire are reflected in the conclusions put forward in this report.

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* The countries and territories include: Algeria, Argentina, Bangladesh, Brazil, Bolivia, Benin, Barbados, Chile, Colombia, Cuba, Ecuador, Egypt, Ghana, Hong Kong, Honduras, Jamaica, Jordan, Indonesia, Iraq, Kuwait, Malaysia, Malawi, Morocco, Mexico, Nigeria, Peru, Philippines, Republic of Korea, Saudi Arabia, Senegal, Sri Lanka, Turkey, Thailand, Tunisia, Yugoslavia, Venezuela, Uruguay. Development Banks and specialized institutions are: Islamic Development Bank, Inter-American Development Bank, Andean Development Corporation, Central American Integration Bank, Caribbean Development Bank, African Development Bank, Asian Development Bank, Arab Monetary Fund, Banco Latinoamericano de Exportaciones (BLADEX), Ecobank.

SUMMARY AND CONCLUSIONS*

(i) This report is one of three reports prepared by the UNCTAD secretariat at the request of the Committee on Economic Co-operation among Developing Countries (resolution 4 (V)). It is a supporting study which should be read in conjunction with the other two reports (TD/B/1300 and TD/B/1300/Supp.2), so as to obtain an overall and complete view of the issues and recommendations reached in the three studies.

(ii) The objective of this report is to address the first part of Committee resolution 4 (V) which calls upon the UNCTAD secretariat to review the existing national and regional trade financing institutions, identify the needs for additional trade financing of South-South trade and review possible ways and means of strengthening the existing institutions.

(iii) The report is therefore organized in the following way. Chapter I raises the issue of trade finance in general and its rationale for the promotion and facilitation of South-South trade. Chapter II looks at the access by developing countries to external financial resources for the financing of their mutual trade. Chapter III analyses the demand for and the availability of trade credits in developing countries at the national level while chapter IV assesses the available resources at the regional and subregional levels. In chapter V an assessment of the current trade financing and future financial requirements is carried out with a view of obtaining rough estimates of the financial gaps arising from future South-South trade in non-traditional products.

(iv) Since this report is only one component of the three studies on the issue of trade financing in developing countries, it draws no formal conclusions. However, the analysis in the five chapters demonstrates that a number of issues need to be addressed by developing countries.

(v) It emerges from the study of the responses to the questionnaire on which this report is based that developing countries' intra-trade in non-traditional exports (see chapter V for definition) will continue to be the most dynamic component of South-South trade and that the share of trade in capital goods and other manufactures is likely to increase over the next 10 to 15 years. The question that comes immediately to mind is whether trade finance is a necessary and sufficient condition for the expansion of South-South trade in non-traditional exports? If viewed in isolation and in comparison with the enormous requirements for investments in technology, production and marketing, trade finance clearly is not the only important factor. However, access by the manufacturer/exporter to financial resources for working capital and post-shipment, particularly medium- to long-term finance, is the most immediately accessible way by which South-South trade could be expanded and it can ultimately be critical to sustained South-South mutual trade.

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* For an overall summary and conclusions, the reader is referred to UNCTAD document TD/B/C.7/1300 which contains, in addition to an executive summary, the major findings of the three reports prepared for the Trade and Development Board on the issue of trade financing for developing countries.

(vi) Against this background the task for a developing country in trade financing can be seen to revolve around two requisites:

(a) Trade credits

(i) To ensure that export credit flows remain at levels broadly appropriate to the capacities of South-South trade, and that abrupt changes in availability do not occur in a manner that is damaging to inter-developing-country trade;

(ii) To ensure that trade-related credits are used effectively in a way that protects the position of creditors and helps to avoid repetition of the widespread losses suffered by commercial banks of a number of developing countries.

The task facing the monetary authorities or central banks should include, inter alia, the adoption of the following policy measures:

- Target lending to the export sector should be given priority within the overall monetary policy of the central banks: to this end, foreign exchange necessary for the import of inputs needed for export production should be allocated to the most efficient and dynamic sectors as they are the major source of foreign-exchange earnings;

- Expanding the ability of exporters to extend credits to foreign buyers, through the establishment of refinancing and guarantee facilities. In this connection, the establishment of insurance and guarantee schemes - either private, public, or jointly owned by the two sectors - would greatly enhance exporters' access to refinancing;

- Where administrative procedures for the applications for import and export licences are cumbersome and time-consuming, Governments should simplify and standardize forms, as well as put a "sun-set rule" on the time for processing applications;

- Developing countries which lack an efficient and adequate banking system should consider introducing reforms in banking regulations and supervision, ownership restrictions and the opening of office branches;

- Simplifying customs procedures for export-bound imported inputs;

- Removal of prior central bank authorization for transactions involving working short-term capital credits, particularly those involving imports of inputs required for export productions;

- Last but not least, establish a forum, including seminars and workshops, for direct dialogue with exporters and other operators in order to exchange views and receive feedback on the efficiency and the performance of these credits and insurance organizations.

(b) Export credit insurance and guarantee schemes

(vii) A broad conclusion that emerges from this report is that the same factors which lead to the growth of demand for both short- and medium-term export credit also call for export credit insurance. If trade in manufactures is rapidly increasing among developing countries, there will be more traders engaging in trade with customers whose creditworthiness is less well established than that of longstanding ones. The risks involved are both to the traders themselves and to the banks from whom they are taking credit. And the banks themselves, as a condition of extending loans, are likely to insist that risks be insured.

(viii) The establishment of credit insurance institutions naturally raises many policy issues. The most relevant for the present purpose may be the following:

(a) In view of the potential volume of exports, particularly of manufactures and semi-manufactures, insurance and guarantee schemes a priori will provide a sufficient premium income to make such an institution viable at least in the medium to long run; such an institution should therefore be established;

(b) Experienced and highly qualified staff should be formed to operate such institution;

(c) Given the multiplicity of new countries and new traders, adequate credit information should be made available to exporters.

(ix) Another general conclusion that emerges from the analysis is that, while premium income may be inadequate because trade is small, trade is small also partly because credit risks cannot be insured. It is therefore necessary to break out of this circle. Furthermore, no credit insurance system can work without credit information. At present, there are credit information services of one kind or another in some Asian and Latin American countries. Improvement in these facilities can only facilitate intraregional trade. At the same time, it is desirable that, where effective credit information services exist, links should be established between them for exchange of information.

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I. ISSUE OF TRADE FINANCING IN DEVELOPING COUNTRIES

A. The problems and their setting

1. Over the last 30 years many changes have taken place in the pattern of world trade and the rate of change has been faster than ever experienced in the past. Trade in manufactured and semi-manufactured goods continued to expand at a fast rate during the 1970s and 1980s, with a number of developing countries emerging as new suppliers of manufactured goods, both to the North and to other developing countries. 1/ In the sector of capital and durable consumer goods, many industrialized countries, which faced a surplus capacity in their industries and competition from other exporters, sought new ways to increase their export market shares. Since dissemination of technological innovations and product standardization reduced the degree of competitiveness among the major industrialized countries, the success of export drives for capital goods and manufactures were largely determined by financial considerations. In varying degrees, OECD countries intensified their efforts to win export orders. The high price and the long life of this category of products resulted in a demand for extended credits and particularly so from those countries whose foreign-exchange reserves were low. Thus the capacity to offer term credits to the buyer has become a predominant factor in international competition among industrialized countries for new markets.

2. As countries have sought to improve the competitiveness of their own industry, the interest rate charged to an overseas buyer has frequently been at a low preferential rate; and in order that the financing institutions involved should not be deterred from undertaking this business, they have usually been granted refinance, or interest make-up facilities by the appropriate authority at the national level. The funding so granted has frequently been partially or fully guaranteed by the same authority.

B. Comparisons with developed countries' official export credits

3. In comparison with the developed countries, developing countries have been at a particular disadvantage, in so far as their ability to extend medium- and long-term export credits on terms competitive with those offered by developed countries. No doubt this is due to the foreign-exchange constraints they face, which make any postponement of foreign-exchange earnings a heavy burden on the economy. Furthermore, the ability of developing countries to refinance their export credits on international capital markets is also restricted. Many developing countries do not have access to these markets. Others with heavy debt obligations have lost their previous access or now face limits on additional borrowings for trade financing purposes.

4. Data on export credits from private and official sources of developing countries do not exist on a comparable basis to those of the OECD countries. However, data collected by UNCTAD for selected countries shown in table 2 give an idea of the order of magnitude of official export credits. With the exception of the Republic of Korea, none of the reporting countries has extended officially-supported credits beyond $US 40 million a year. Most developing countries have provided official credit in the range

of $US 2 to $US 20 million a year. These credits cover roughly between 0.5 per cent and 15 per cent of their exports of manufactures to other developing countries (table 2).

5. Because of the limited size of domestic savings and the foreign-exchange constraint on their payments positions, developing countries have not been able to accommodate the credit demands of their exporters, particularly medium- and long-term finance required for capital goods and manufacturers. At present, there are less than half a dozen developing countries which have export financing facilities comparable to those of the North.

6. In OECD countries, a comprehensive system of institutions, including export credit insurance agencies, has been set up to support exports from these countries. Interest rate subsidies, in some cases, are directly provided by central banks, as well as through the provision of mixed credits, that is export credits mixed with official development assistance, so that the net cost to the borrower is appreciably reduced. As a result of these facilities, an important part of world trade is now financed by developed countries' official and private specialized export-credit institutions.

7. For instance, over the last three years (1986-1988), official export credits to developing countries averaged $US 3 billion, and rose rapidly in 1989 to $US 3,6 billion, while private export credits averaged $US 20.2 billion over the same period (1986-1988) and rose steadily from $US 17.2 billion in 1986 to $US 27.5 billion in 1989 (table 1).

8. These substantial export credits from both private and official sources have been tied exclusively to the exports of OECD manufactures and capital goods to developing countries. 2/ Developing countries therefore have no access to this source of finance for their own exports to other developing countries.

9. The terms of these credits shown in table 1 have been revised in July 1990 with a view to insulating the interest rate from fluctuations in domestic money markets and therefore applying a uniform interest to exports extended to developing countries by all member countries. The new system applies a commercial rate to category I (rich countries) and an SDR-based interest rate modified by a spread ranging from 20 basis points for the poor countries to 150 for the relatively rich ones. Given the financial squeeze facing most developing countries and the tight money market conditions accompanying their structural adjustments, very few developing countries can offer similar competitive terms on their export credits, particularly for long-term finance.

10. Gross OECD private export credits have shown a sharply rising trend in 1989. Gross disbursements reached $US 27,153 million in 1989 as compared with $US 16,223 million in 1988. The rise in these credit flows has been at a faster rate than the growth of trade in capital goods and reflects the changing characteristics of capital goods exports and the intensified financial competition among industrial countries. The geographical distribution of credit recipients indicates that the more advanced developing countries account for most of the recent flows and that the flows correspond in a general way to the economic size and the stage of development of the main recipient countries.

Table 1

Terms and conditions of gross flows of export credits from OECD countries to developing countries: selected donors 1988

(In millions of US dollars)

A. Credit flows

Donor Country	Official export credits			Private export credits		
	1987	1988	1989	1987	1988	1989
France	762	967	786	804	-	-
Germany	727	751	998	3 117	3 345	3 376
Japan	1 382	1 339	887	2 241	2 165	2 770
United Kingdom	191	196	342	3 402	1 937	8 655
United States	522	483	480	3 351	4 225	6 251.0
Total Gross DAC export credits	2 831.8	2 470.8	3 626	Total Gross private export export credits (DAC) 17 128.4	16 223.0	27 153.5
Total Net DAC official export credits	2 492.0	-1 232.7	-136.5	Total Net private export export credits (DAC) -4 483.9	-2 832.3	4 965.4

B. Terms and conditions

Country Classification	Number of years in maximum repayment terms	
	2-5 years	8.5-10 years
Category I (2) (relatively rich)	commercial interest rate	commercial interest rate
Category II (intermediate)	SDR(2) + 105 bp a/	SDR(2) + 155 bp
Category III (relatively poor)	SDR(2) + 20 bp	SDR(2) + 20 bp

Source: 1988, 1990 DAC Chairman Reports, OECD Secretariat, Paris, and Export Credit Financing Systems in OECD Members, OECD Secretariat, 1990.

a/ bp = base point.

Table 2

Official export credits extended by selected developing countries to other developing countries a/
(Millions of US dollars)

(Expressed in percentage of 1986-1989 exports to other developing countries in parenthesis)

	1986	%	1987	%	1988	%	1989
Bolivia	-	-		-	12.55	-	25.65
Chile	-	-	9.02	(1.2)	10.08	(0.7)	10.69
Colombia	4.45	-	4.75		4.87		-
Bangladesh	-	(9.31)	3.78	(11.5)	4.39	(14.09)	5.08
Jordan	12.4	(1.2)	15.7	(1.23)	21.2	(1.9)	-
Kuwait	16.41	..	16.61	..	16.98	..	-
Korea Rep.	44.40	(3.3)	52.39	(1.11)	66.90	(0.47)	-
Malawi	0.12	..	0.092	..	0.102	..	-
Malaysia	5.04	(0.4)	5.40	(0.3)	6.13	(0.5)	-
Thailand	20.87	(2.1)	26.89	(1.9)	34.31	(2.76)	-
Turkey	14.90	-	18.70	-	16.89	-	-
Sri Lanka	1.66	(0.67)	1.87	(0.71)	2.07	(0.46)	-
Jamaica	11.00	-	17.30	-	15.0	-	-
Morocco	-	-	4.99	(19.28)	-	(20.5)	-
Nigeria	5.60	-	6.90	-	3.12	-	-
Senegal	1.29	(0.4)	1.57	(1.13)	1.76	(0.6)	1.91

Source: Data provided to UNCTAD by national agencies through a questionnaire.

a/ Data were converted in US dollars using IMF period average exchange rates. See IFS, Vol. XLIV A02, February 1991.

11. The changes of credit and insurance facilities which were recently introduced by the OECD countries were designed to meet the needs of the export trade in capital goods and have taken two lines. First, the major exporters of capital goods have sought, through legal, institutional and other innovations, to put themselves in a position to meet competition on credit terms. Secondly, they have sought to standardize the terms and conditions applying to the trade in capital goods through understandings and through ad hoc agreements. In addition, they have introduced a number of techniques with a view to partly insulating the costs of export credits from domestic interest rates.

C. Consideration of some particular developing-country problems

12. The manufacturer-exporter normally requires finance at both the pre-shipment and the post-shipment stage in adequate measure and at reasonable cost. Furthermore, it is essential that he obtain the finance expeditiously so that he can meet his export orders on time. Consequently, government-sponsored export financing schemes have to be devised in such a way that the manufacturer is furnished with export finance without undue delays.

13. In most developing countries the government-backed export financing agencies which provide preferential refinance to commercial banks through the central bank, extend export credits to the exporter on a case-by-case basis. Accordingly, the obtaining of preferential finance requires that the manufacturer has already secured a firm export order. Granting export finance on a case-by-case basis for specific export orders tends therefore to be time-consuming. Delays can occur at two stages. First, the commercial bank may take its time in checking the exporters' application and disbursing the loan. Secondly, the commercial bank may not be furnished with the preferential refinance by the central bank immediately after disbursement of the export credit to the exporter. Schemes may also require that only the head office of the commercial bank can apply to the central bank for refinance. Thus, a further delay will occur in all cases where local branches have granted the export finance. Delays in the provision of preferential refinance act as a disincentive because the bank has to fund low-interest export credit out of its own resources until preferential refinance is obtained. And that will somehow be reflected in its asset preference.

14. As far as the non-governmental sector is concerned, i.e. private banks and other institutional sources, the record shows that they do not view export credit as a desirable asset. If they were to grant anything, it is usually working-capital loans to their established customers, i.e. the best-known firms. Moreover, this type of financing is typically short term and carries onerous requirements of collateral, and all such credits would be in the form of loans rather than trade paper which can be subsequently refinanced.

15. It should be recalled that exporters in developing countries compete internally over limited credit facilities, and this often leads to rationing of domestic credit. In such circumstances, exporters find it difficult to obtain domestic financing in adequate amounts or on reasonable terms. Furthermore, since medium- and long-term export credits are nothing but loans to foreign buyers, they represent in the aggregate an export of local capital. Assigning larger amounts of domestic resources to meet the growing

demand for export credits can thus only be achieved at the expense of other investment objectives. This creates a difficulty for developing countries which themselves are importers of capital.

16. The ability of developing countries to meet the increased future demands for non-traditional exports is another problem. Unlike traditional commodity exports, which are either self-financing or can easily attract foreign bridge loans, non-traditional exports require medium- to long-term lending and investment in information about exporters and importers. 3/

17. The diversification of developing-country exports into non-traditional products is a trend very much in evidence in all the newly-industrialized countries. 4/ Exporters entering new markets where they have not been established have had, in addition to all the problems of establishing their products and their market shares, to face the credit networks of their competitors from developed countries who are frequently supported by financing provided by national export finance institutions, or have access to ample sources of finance in international financial markets. If developing countries are to expand their exports of such goods, they are faced with a dual problem. First, they must create increased financing flexibility and give priority in their monetary policy to finance such exports. Secondly, they must be willing to use an increasing proportion of domestic savings for such purposes. And even if these two problems were somehow tackled, it is unlikely that non-export-finance institutions will ever take on the refinancing of non-guaranteed or insured credit for pre-shipment working capital. Hence, new exporters or established ones dealing with new markets or products will in all likelihood be automatically rationed out and would have to rely on their own resources for the financing of new exports.

18. Available data analysed in chapter III, section C, show that the bulk of export credit is in the form of short-term loans ranging from 3 to 6 months. Medium- and long-term finance for capital goods and manufactures is extended only by 4 countries out of 36 surveyed in this study, a sharp contrast with developed countries where most exporters in these branches normally get export credit coverage.

19. In developing countries existing official facilities are limited to either rediscounting through central banks, which are greatly constrained by monetary policies and IMF-type structural adjustment programmes, or to specialized export-import financing and insurance schemes. The latter have been unable to meet in any meaningful way the financial needs of their clients because of two fundamental problems. The first has to do with the inadequacy of their capital base and access to third party funds (see chapter III) and the second relates to a number of management problems which concern the application procedures, loan extension and document clearances of the agencies. These difficulties have discouraged borrowers and drastically reduced the potential contribution of export-import banks to the promotion of exports.

20. On top of all of these problems, all institutional sources of trade financing seem to consider in granting credit the so-called "shipping capacity" of exporters rather than their "productive capacity", as witnessed by the almost non-existence of adequate pre-shipment or working capital finance or pre-shipment insurance schemes.

21. Finally, Unlike the developed countries, there is no multilateral forum where export credit policies of developing countries are discussed and therefore the terms applied by individual exporters vary from one country to another and reflect largely the domestic interest rates, foreign exchange position of the country concerned and access to international finance. Comparison of the terms of credits between OECD and developing countries is therefore not possible particularly for those countries facing hyper-inflation and devaluating currencies.

22. It is therefore clear that without a concerted policy approach for supporting South-South trade, it is difficult to perceive how the export sector will be induced to resume its past contributions to the development of developing countries. The availability of working capital for exports, as well as imports of intermediate goods, is clearly a pre-condition for future economic growth. The mobilization of financial resources for use in the export sector is an urgent necessity if international competitiveness is to be maintained; but without access to external funds, developing countries' exports to each other will continue to lag behind. A key issue is therefore how to ensure that the financing of these flows - whether or not its growth is restored - can be effectively mobilized. There are no simple formulas, but among the most relevant approaches are the strengthening and the revitalization of existing schemes as well as the possible linking of some regional institutions or the establishment of a new regional facility. This would entail on the one hand an evaluation of the limits of existing financing mechanisms and, on the other, a determination of the need for additional financing.

II. ACCESS TO EXTERNAL FINANCIAL RESOURCES

A. Access to international markets

23. Since the emergence of the debt crisis in the early 1980s, access to international financial markets such as the Eurocurrency and Eurobond markets has been severely limited. In fact, flows from these markets have been negative over the last few years and are likely to remain so for some time to come. These limitations apply equally to the traditional trade financing loans even though they are self-liquidating, profitable and involve no risk. In other words, the debt crisis has placed restrictions on developing country access to financial markets for trade financing purposes.

24. The rescheduling of private and official debt of the major debtors led most banks to cut rapidly short-term lines of credit prior to successful rescheduling, thus disrupting normal trade transactions and industrial output and slowing down further the country's prospects of early economic recovery. In addition, substantial fees often accompany the reschedulings. This clearly piles up an extra burden on countries already burdened by their payments difficulties.

25. The present contraction of credit shows that banks have been seeking to reduce short-term exposures and that, as a result, borrowers are finding it difficult even to raise trade financing requirements, which in normal market

circumstances they might be expected to obtain easily. There is thus the risk that even borrowers who are creditworthy according to standard indicators are being classified as "uncreditworthy" because of the way the market decides. This dilemma arises because, for country risk analysts, the standard yardsticks of credit appraisal have been mostly overtaken: many countries have long exceeded the conventional 20 per cent debt-service ratio suggested by the World Bank. But, even though many countries have been able to cope with a high debt-service ratio as long as the banks continue to lend, the evaluation of creditworthiness turns on whether the market continues to believe the borrower's country is creditworthy or not.

26. The gross flow of capital to developing countries from international financial systems is less now than it was at the start of the 1980s. This largely reflects the banker's reappraisal of the risks involved in bank lending to the public sector of the highly indebted countries, and a similar process has also occurred in bond markets, where the volume of bonds issued by developing countries is less than it was in the early 1980s. The major exceptions to this development are the fast-growing Asian countries, which continued to expand their links with the international financial markets.

27. Table 3 shows that, with the exception of 1987, total external bank and bond claims on developing countries declined continuously as from 1981, from $US 89 billion to a negative $US 7 billion in 1988. Banks' unwillingness to lend to indebted developing countries medium-term financing has been mainly due to the high rate of debt conversion. Information for the first three quarters of 1989 shows, however, a modest increase of $US 6 billion in external bank and bond claims on developing countries.

28. To be sure, there has been a general softening of commercial terms, particularly the lowering of the spread over LIBOR (table 4). The data are rather inconclusive, partly because of the inherent difficulty of predicting the likely effect of changes in the terms of commercial credits on the volume, terms, uses and the geographical distribution of flows, and partly because of the differences in the interests of the recipient countries at different stages of development.

29. Average spreads on bank lending commitments to developing countries declined substantially between 1983 and 1988, for both voluntary flows and for financing in the context of restructuring agreements. Average spreads over LIBOR declined continuously from 80 basis points for voluntary lending in 1983 to 56 basis points in 1987, before increasing sharply in 1989 to 72 basis points (table 4). However, it should be recalled that developments in spreads do not accurately reflect all the cost to borrowers because they do not take into account various commitment and front fees.

30. Average maturities on new loans to developing countries also declined gradually between 1984 and 1986, reflecting mainly a shortening of maturities on concerted new lending. However, in 1987, average maturities increased sharply, but this rise was reversed in the following two years, and in 1989. The average maturity on both voluntary lending and concerted lending was eight years and one month, i.e. the level of 1984 (table 4).

Table 3

International lending, 1981 - third quarter 1989
(in billions of US dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1988	1989
									First three quarters	
International lending to developing countries a/										
Total										
IMF-based	89	54	33	14	7	4	22	-7	-12	6
BIS-based	55	37	28	10	17	3	8	-4	-10	-11
Bond issues (net)	2	3	2	3	4	2	1	2	1	1
Change in bank claims										
IMF-based	87	51	31	11	3	2	21	-9	-13	5
Growth rate (in per cent)	22	11	6	2	1	-	4	-1	...	...
BIS-based	53	34	26	7	13	1	7	-6	-11	-12
Growth rate (in per cent)	17	10	7	1	3	-	1	-1	...	...
Memorandum items										
Total gross bond issues	52	76	77	110	168	227	181	227	172	197
Of which:										
Industrial countries	39	60	60	91	138	201	156	198	151	172
Developing countries	4	5	3	4	8	4	6	6	4	3

Sources: Quoted in International Capital Markets Developments and Prospects, IMF, April 1990, Washington, D.C.; Bank for International Settlements (BIS); Organisation for Economic Co-operation and Development (OECD); International Monetary Fund, International Financial Statistics.

a/ Excludes the seven offshore centres (The Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore).

Table 4

Terms of long-term bank credit commitments, a/ 1984-1989
(In per cent, unless otherwise indicated)

	1984 b/	1985	1986 c/	1987 d/	1988 e/	1989 f/
1. Six-month Eurodollar interbank rate (average)	11.29	8.64	6.85	7.30	8.13	9.27
2. US prime rate (average)	12.04	9.93	8.35	8.21	9.32	10.50
3. Average maturity (in years/months)	7/8	7/9	6/8	8/4	5/8	6/3
OECD countries	7/2	7/5	6/3	7/6	5/1	5/11
Developing countries	8/6	8/5	8/2	10/8	9/0	8/1
Of which: voluntary	8/1	8/2	8/2	9/1	8/11	8/1
Other	6/6	7/4	6/9	6/1	6/6	4/4
4. Average spread	0.92	0.62	0.41	0.42	0.35	0.45
OECD countries	0.57	0.47	0.37	0.34	0.31	0.41
Developing countries	1.32	0.92	0.61	0.68	0.65	0.72
Of which: voluntary loans	0.72	0.64	0.61	0.56	0.57	0.72
Other	0.88	0.56	0.33	0.48	0.42	0.27

Sources: Organisation for Economic Co-operation and Development, Financial Market Trends; International Monetary Fund, International Financial Statistics (for Eurodollar and prime rates).

a/ OECD country classification.

b/ Does not include terms of agreements in principle with Argentina, Côte d'Ivoire, Ecuador, and the Philippines.

c/ Does not include terms of agreements in principle with the Congo, Mexico, and Nigeria.

d/ Does not include terms of agreement in principle with Ecuador.

e/ Does not include terms of agreements in principle with Côte d'Ivoire and Yugoslavia.

f/ Does not include terms of agreements with Jordan, Mexico, and the Philippines.

B. Access to regional development banks

31. An important issue concerns the role of regional development banks in the process of export expansion and diversification, given the close interdependence existing between the balance-of-payments problems, the growth of industrial capacity and national economic development. Without an expansion of exports, countries cannot generate the foreign exchange needed to finance their imports and development projects, and thus sustain their economic growth. Nevertheless, the pressure on development banks to finance other high priority areas and limited financial resources does not enable them to devote the necessary resources in adequate volume and on favourable terms to export financing, despite the important part played by such promotional activities in regional and national development.

32. In view of the multiple financing functions of such institutions, and the various kinds of institutional difficulties and operational restrictions, the problem of priorities has to be faced. Furthermore, it is argued in this study that the vast majority of developing countries are in no position to allocate additional domestic savings to the extent required for export finance. In such circumstances, the injection of resources by regional financing mechanisms, designed to support the quantitative and qualitative growth of exports, takes on crucial importance.

C. Regional trade-financing institutions

33. Experience has also shown that it is preferable for such financing operations by existing regional mechanisms to be carried out with each individual country through specialized organs. This has necessitated the establishment and strengthening of national facilities for financing and promoting exports. It should be noted that the limitations which are of an institutional and operational nature can restrict or reduce the role of regional banks for export promotion activities. In the past, these limitations have been avoided by the creation of specialized regional and subregional trade-financing institutions such as BLADEX, SAFICO, ATFPO, IsDB, Ecobank, and the newly-established Arab Trade Financing Programme. These institutions are still in their infancy and therefore would require time to accumulate expertise and access to third party capital in order to be able to meet manufacturer-exporters' financial needs in adequate amount and on competitive terms.

34. There are definite advantages to regional/subregional trade-financing institutions, not the least of which is their specialized nature. Other advantages may be listed as follows:

(a) Although the international commercial banks and multilateral financial institutions are able to finance exports of manufactured goods among developing countries, their primary objective is not the promotion of economic cooperation among developing countries. Moreover, they are not capable of performing certain functions which may be essential or very useful to a particular group of countries participating in joint schemes of economic cooperation.

(b) A subregional institution is in a position to take greater cognizance of the particular needs of the group of countries that it is designed to serve. It may act more efficiently in generating regional

projects and programmes through promotional activities, technical assistance and information dissemination. It may function as a mechanism to provide equitable sharing of benefits from the cooperative process among the participating countries, by raising capital from its members in accordance with their capacity to contribute and by distributing such funds in accordance with their needs. Finally, it may act as an intermediary in reducing the inherent risk element in trade finance through pooling of individual country risks.

(c) An individual developing country, or group of them, is not able to exercise much influence in the context of worldwide financial institutions or even in respect of the large regional banks. This may not be so important for loans concerned with strictly "national" projects but it becomes very significant in the case of lending for regional projects, where the funds have to be used and administered in the interest of the group as a whole.

III. THE DEMAND FOR AND AVAILABILITY OF TRADE CREDITS IN DEVELOPING COUNTRIES

35. The financial squeeze which followed the debt crisis in 1982 forced developing countries to revise development plans, postpone investment projects and compress imports from all sources. At the same time, regional and subregional development projects in all sectors were given lowest priorities even where the foreign-exchange component of the project costs were either negligible or non-existent. Imports for project from other developing countries were also severely compressed during the period 1982-1987 and exports were directed towards the North with a view to securing foreign-exchange earnings to service external debt, even in cases where foreign-exchange earnings were marginal. As regards imports from other developing countries, they were equally reduced either because of overall compression of domestic absorption or in order to save on the use of scarce foreign exchange even within subregional integration groupings which have had multilateral clearing arrangements. Consequently, finance for intra-trade, both from domestic and subregional sources, fell sharply particularly for the commercially indebted Latin American countries and Africa. As has already been argued, this situation will not ease up in the coming years.

36. The availability of trade credit can best be approached by reviewing the existing credit and finance schemes of developing countries.

A. Domestic export promotion and credit financing schemes

37. The discussion in this section is based on the responses of 33 developing countries to a questionnaire formulated by the UNCTAD secretariat for the purpose of a bienniel review of trade financing schemes in developing countries. 5/ The information provided here covers 10 Asian, 10 Latin American and Caribbean, 9 African and 4 Middle Eastern countries.

38. All the countries cited in table 5 have some form of trade financing or trade promoting schemes including, insurance and guarantee schemes, but not all are fully operational. However, it appears that the bulk of the schemes reviewed here lack both financial resources and are not well developed to deal with the modern techniques of export finance and promotion. While trade financing in itself will not solve all intra-trade problems, 6/ it is widely perceived as a major instrument of trade promotion. 7/

Table 5

Domestic trade financing and guarantee schemes in reporting countries

Country or territory	Specialized export financing	Other financing mechanisms
Algeria	No	Central Bank
Argentina	No	Central Bank
Bolivia	Inst. promot. export	Central Bank
Brazil	CALEX FINEX	Central Bank plus a mixed commission made out of Ministry of Finance, industry and office of export promotion
Bangladesh	No	Central Bank, national banking system
Chile	No	Central Bank, national banking system
Colombia	Export promotion Fund	-
Cuba	Central Bank	Directorate for foreign trade credit
Costa Rica	FOREX (Central Bank)	-
Ecuador	FOPEX (National financial cooperation)	Central Bank
Egypt	EEDB	Central Bank
El Salvador	No	Central Reserve Bank
Hong Kong	Commercial banks	
Iraq	No	Central Bank
Jamaica	Export-Import bank	Various ministries including commercial industry and finance
Jordan	No	Central Bank
Korea, Rep. of	KEXIM	Central Bank support to commercial banks

Table 5 (continued)

Domestic trade financing and guarantee schemes in reporting countries

Country or territory	Specialized export financing	Other financing mechanisms
Kuwait	No	Central Bank and Ministry of Finance and Commerce
Malawi	No	Central Bank + Ministry of Finance
Malaysia	No	Bank Nagara Malaysia (Central Bank)
Mexico	FOMEX National Bank for Commerce (	- Bancomext recourse - FIRA (Banco Mexico S.A.) - Lines of credits (Central Bank) - Central Bank
Morocco	No	BMCE; Ministry of Finance and Commerce
Nicaragua	No	Central Bank
Nigeria	No	Central Bank
Panama	No	Domestic commercial banks
Peru	FENT (Industrial Bank)	Industrial bank, to roll-over lines of credits
Senegal	National Commission for export credit and guarantee	Central Bank
Sri Lanka	Committee for the Development of Trade	Central Bank and Ministry of Finance
Thailand	No	Bank of Thailand and Ministry of Finance
Tunisia	N.a.	Central Bank
Turkey	Export-Import bank	Central Bank
Uruguay	No	Domestic commercial banks
Venezuela	FINEXPO FIV (Central Bank)	Domestic commercial bank
Zimbabwe	EX-IM Z	

39. The nature of domestic trade financing schemes of the Latin American, African, and Asian countries vary considerably from one country to another as regards objectives, the source of finance, modalities, techniques of payments, and the range of export coverage. Bearing this point in mind, it is possible, however, to draw the salient features of the domestic trade financing schemes which are both common to all countries of the sample and are of major importance to the countries concerned.

40. In countries which have succeeded in increasing their exports of manufactures including capital goods, the provision of export credit through specialized institutions is one of the most important elements in the promotion of their exports. To this end a large number of developing countries have established a range of institutions and facilities to finance manufactured goods exports. These facilities vary in the size and the scope of their operations as well as in regard to the financial resources at their disposal. Thus, while in some countries institutions provide both pre- and post-shipment finance, short- and medium-term credit as well as rediscounting credit insurance and guarantees, such institutions are limited in both the scope of their activities and funds available to them. Overall, all the export financing institutions of developing countries are constrained in varying degrees by the financial resources available to them. Thus in all but one of the 33 countries' institutions reviewed in this study, the central banks have established strict guidelines with regard to the provision of export credits and limits on the credit terms.

41. Arrangements which provide trade-related credits for the exports of manufactured and semi-manufactured goods are designed to meet three objectives: (a) access to available finance; (b) provision of funds at competitive rates; and (c) insurance and guarantee against foreign trade risks. In both developed and developing countries, the normal method of pursuing these objectives has been the establishment of government-backed export financing and export credit insurance schemes.

42. Government-sponsored export credit financing systems of developing countries extend medium- and long-term export finance at interest rates below bond yields. Such a finance is provided in principal for the backstopping of both suppliers' and buyers' credits, but often the quantities are so meagre that this broad coverage remains operationally insignificant. Most developed countries operate specialized institutions especially set for the financing of manufactures and capital goods, 8/ while the majority of developing countries reviewed here have neither adequate trade promotion facilities nor specialized export financing insurance and guarantee schemes (see table 5 below).

43. Out of the 33 countries reviewed in this study, 16 countries possess specialized export financing and guarantee schemes and 12 have some form of trade promotion facilities. The existing domestic schemes present also differences in character as regards their objectives, source of financing, lending modalities and coverage. The only common denominator is their inadequacy to provide full support and meet the needs of local exporters for finance and insurance and guarantee.

44. In countries where there are no specialized export-credit institutions and where either the central bank or the commercial banks are the major sources of finance, the needs for trade finance remain largely unmet, as seen from the viewpoint of the exporters. Systematic rationing is the rule (table 5).

B. The role of the central bank and public banking

45. As was mentioned earlier, one of the major sources of trade finance and refinancing is that of the central bank. To evaluate the role of the central bank in providing credit to the export sector, it is important, however, to place the issue of trade finance within the overall monetary policy of the central bank.

46. At the outset it appears that in this context the role of the central bank has focused on three issues:

(a) to ensure automatic access to rediscounting window;

(b) to manage liquidity so as to ensure the export sector's access to the rediscounting facility even in the face of tight monetary policy;

(c) to provide a subsidy element in the interest rate charged to export credit.

47. Liquidity management is one of the major functions of the central bank. This is anchored to the classical hypothesis of a long-run inflation-money supply-monetary base relationship. Once an inflation rate target for a certain period is decided upon, the central bank then determines the level of monetary base that is deemed consistent with that target. It does this by controlling the components of the monetary base. 9/

48. Usually, the rediscounting facility of a central bank is used to allocate credit to priority sectors, including the export sector. Within this sector, non-traditional exports receive, in most developing countries, a preferential treatment over the traditional exports. The rediscounting for the former is usually well below that prescribed by the ceiling on the leading rate.

49. However, during periods of retrenchment and aggregate demand compression, as has been the case during the 1980s, the rediscounting windows of the central banks have been used more for stabilization purposes than for allocating credit to priority sectors such as exports; in a number of cases where the projected increase in the monetary base arising from the net increase in rediscounting of export loans exceeded the level that was thought to be consistent with the inflation rate target, the central banks either revised partially their rediscounting of export loans or/and engaged in open market operations to bring down the increase in the monetary base to combat inflation.

50. In 19 respondant countries, only loans to direct exporters are refinanced by the central banks. Indirect exporters, who may be holding domestic letters of credit, purchase orders or sales contracts with final exporters are not given access to the rediscounting window of the central banks. There are at least two basic reasons for this policy. The first is that the Central Bank may want to avoid losing control over the monetary base if it opens its rediscounting window to a wider range of borrowers. This is particularly true in countries where pre-shipment financing techniques are traditional or primitive. 10/ The second reason is that in all the countries reviewed, there are special financing schemes to which the indirect exporters can have access. Whether these alternative schemes can adequately meet the financing requirements of indirect exports is of course questionable, as is discussed below.

51. Since the channel of extending trade credit passes through the discount window, the ratio of total discounting to trade may be used as a proxy for Central Bank contribution to trade financing. (Table 6 below)

Table 6

Central banks refinancing of total credits outstanding to commercial banks as percentage of total exports
(percentages)

Year / Country	1975	1980	1985	1986	1987
Argentina	n.a.	25.8	34.1	33.3	n.a.
Bangladesh	n.a.	3.5	4.1	3.8	n.a
Barbados		9.1	0.6	0.5	1.8
Brazil	n.a.	26.1	35.7	38.2	n.a.
Colombia	n.a.	4.2	4.6	4.5	n.a.
Côte d'Ivoire	n.a.	19.9	18.7	15.2	n.a.
Ecuador	0.0	0.4	2.1	n.a.	n.a.
Egypt	-	-	-	-	-
Ghana		3.2	2.8	2.4	n.a.
Guatemala	2.2	7.3	10.0	n.a.	n.a.
India					
Jamaica	n.a.	1.1	10.7	9.8	9.7
Nigeria	11.0	9.6	7.4	16.7	n.a.
Pakistan	n.a.	n.a.	n.a.	n.a.	n.a.
Philippines	1.4	1.5	2.0	2.0	2.1
Senegal	11.1	12.1			
Thailand	8.4	12.7	13.6	n.a.	n.a.
Sri Lanka					

Source: World Bank memorandum, various issues.

52. Furthermore, the cost of credits is almost as important as that of the capacity to grant them. In fact the very active competition waged by the exporting countries affects not only the price and the quality of the loans, but has also spread to payment conditions (see table 7). On the other hand, the gradual lengthening of maturities and the general increase in interest rates up to mid-1985 have resulted in accumulated interest charges on the importers as well as on the overall balance of payments. The importer is therefore particularly sensitive to the interest terms that can be obtained from the exporter.

53. As mentioned earlier, the export financing systems set up in the different countries analysed in this report are marked by a clear concern about providing exporters with financial assistance at a price as subsidized as possible. That is why, although in many countries the contribution of the public banking sector is far from negligible, direct or supplementary public intervention is a predominant feature of all systems. It is demonstrated at two levels: credit insurance and financing. Moreover, since uncertainty cannot be measured, the coverage of political and commercial risks is often indispensable in order to obtain export financing. In view of the fact that the private sector is less willing to handle such risks, State intervention is exercised on different levels and in varying degrees.

54. Public intervention in the field of trade financing in developing countries tends to influence the cost of credit favourably but has not influenced the adverse selection and therefore credit rationing. Depending on the country, such intervention takes a variety of forms and has often several of the following characteristics all at once. Briefly, these forms are as follows:

(i) participation in capital formation of the credit institution;

(ii) supply of facilities under favourable conditions;

(iii) organization of the refinancing of export credits through loans issued under State guarantee;

(iv) interest subsidies, so as to reduce the price of the credit obtained by the exporter from a specialized agency;

(v) concessional official loans extended to buying countries, and development aid.

Table 7

Structure and terms of domestic export financing schemes of reporting countries

Country or territory	Financing scheme	Interest rate	Maturity period	Coverage	Required guarantees
Algeria	pre-shipment post-shipment	5% 8%	180 days and up to 3 years for non-traditional goods	Up to 80%	Insurance/guarantee required.
Argentina	pre-shipment post-shipment	7.5% 7.5%	Up to one year - ditto -	Up to 60% of FOB Up to 80% of FOB	Required by financial institutions. Credit insurance guarantees by foreign bank required.
Bangladesh	pre-shipment) post-shipment)	9% traditional goods 7.2% non-traditional	Up to 180 ,days no 1/t credits	90% to 100%	In additional insurance and guarantee real estate and other collateral may be required.
Barbados	pre-shipment) post-shipment)	Fixed by CB and commercial rates are subsidized by CB.	3-6 months 6 months	Up to 100%	Insurance and guarantee required by commercial banks.
Bolivia	pre-shipment post-shipment	Libor + 6% concessional rate	Up to 180 days	70% FOB Up to 100% FOB	Insurance and guarantee required.
Brazil	pre-shipment) post-shipment)	Cadec: set by CB Finex: 7.5%-9% for credits denominated in $US + 2% commission	180 days and up to 10 years		Insurance and guarantee required.

Table 7 (continued)

Country or territory	Financing scheme	Interest rate	Maturity period	Coverage	Required guarantees
Chile	pre-shipment) post-shipment)	Libor + 1.5%	Up to one year + 5 years for capital goods.	Up to 80%	Guarantee and insurance required.
Colombia	pre-shipment post-shipment	14%-19% 14%-19%	180 days to one year 180 days to 8 years	80%-90% Up to 100% FOB	Required by financial institutions. Guarantee and insurance required.
Costa Rica	pre-shipment	Libor + 3.5 pts Prime Rate + 3.5 pts	Up to 5 years	100% of export value	Required by financial institutions.
Cuba	pre-shipment) post-shipment)	4%	Up to one year 1/t exceptional for selected countries.	Up to 90%	Insurance and guarantee required.
Dominican Republic	pre-shipment post-shipment	8% CB 12% commercial banks	30 days and up to 2 years	Up to 80%	Insurance and guarantee required.
Ecuador	pre-shipment post-shipment	6% concessional 4% Central Bank	Up to one year	Up to 80%	Insurance required plus real estate or other collaterals.
Egypt	post-shipment	11%-14%	180 days to one year	70% FOB	Insurance and guarantee required.
Hong Kong	pre-shipment) post-shipment)	market rates	Up to 180 days m/t and 1/t credit available	Up to 90%	Insurance or guarantee required in certain cases.

Table 7 (continued)

Country or territory	Financing scheme	Interest rate	Maturity period	Coverage	Required guarantees
Iraq	pre-shipment) post-shipment)	5% net	Up to 90 days	Up to 80%	Insurance and guarantee required.
Jamaica	pre-shipment) post-shipment)	15%	90 days for export up to one year other exports	Up to 90%	Confirmed letters of credit and guarantee required.
Jordan	post-shipment only	10%-11.5%	Up to 4 years but bulk less than 180 days	Up to 80%	Insurance and guarantee required
Korea, Rep. of	pre-shipment post-shipment	Eximbank 9% others Libor + margin	180 days and up to 10 years for capital goods	70% to 90%	Insurance and guarantee required.
Kuwait	pre-shipment post-shipment	9.5%	180 days and up to 5 years	75%-85%	Insurance and guarantee required in certain cases other collateral required.
Malawi	post-shipment	concessional rate	Up to 60 days		The system has not been operational since 1987.
Malaysia	pre-shipment post-shipment	A ceiling of 4%	60 days to one year Up to 5 years capital goods	70% to 80%	Real estate and other guarantees are required in addition to insurance.
Mexico	pre-shipment post-shipment	6% to 8.75% depending on product and importers US prime rate or Libor minus 3 pts	180 days and up to 10 years	100% for credits up to one year 85% for up to 5 years	Insurance and guarantee required.

Table 7 (continued)

Country or territory	Financing scheme	Interest rate	Maturity period	Coverage	Required guarantees
Morocco	pre-shipment post-shipment	9% Libor + margin	Up to one year traditional goods and up to 5 years for capital and equipment	70% to 85%	Insurance and guarantee required.
Nigeria	pre-shipment post-shipment	Negotiable, ranged between 12.7% and 15%	60 days to one year	70%	Confirmed letters of credits + supplement guarantee required.
Peru	pre-shipment post-shipment	50.5% (1988) plus commission	90 days and up to 10 years for capital goods	Up to 90% CIF or FOB	Insurance and guarantee required.
Senegal	pre-shipment post-shipment	Market rate less 3 pts end 1989 12.5%	Up to one year	80%	ASACE insurance and additional guarantee required e.g. real estate etc.
Sri Lanka	pre-shipment post-shipment	- (concessional) 16%-18%	- Up to one year average 120 days	- 75%	- In certain cases, real estate guarantee required.
Venezuela	pre-shipment post-shipment	FINEXPO: prime rate less 6 pts (end 1989 28%)	Up to 2 years	Up to 60%	Insurance as well as additional guarantee required e.g. real estate etc.
Yugoslavia	pre-shipment post-shipment	Ceiling of 10%	180 days and up to 12 years for capital goods	65% to 80%	Insurance and guarantee required.

Source: Data provided to UNCTAD by the reporting countries.

C. Commercial banks and major providers of trade credits

55. The domestic based commercial banking (both local and international) systems of developing countries have had a long history of supporting the exporting sector which dates back to the pre-independence periods. Since the nineteenth century, these banks have been financing mainly exports of primary products and have only recently diversified some of their activities to include the financing of non-traditional exports.

56. At present, there are some 2,700 commercial banks, both privately and government owned, in developing countries as well as over 3,000 subsidiaries of foreign banks. Their combined assets are estimated to amount to $US 125 billion. 11/

57. The financial support available to the exporters clearly depends on the credit capacity of the country's banking system. Although, the export financing of certain basic commodities (raw materials, grains, etc.) might be secured easily, it is a different matter when it comes to sales of manufactured products, particularly where extended payments terms are involved.

58. The credit capacity of a banking system depends on the lendable funds it has collected in the form of deposits or otherwise. This capacity would increase, for example, to the extent that the system was able to reconstitute its lendable funds through rediscounting of the credit instruments arising from the credits it had granted. 12/ The purchasers of bank credit instruments could operate on an organized money or financial market. In addition, the existence of specialized institutions created to support the action of the banking system selectively would help increase the credit capacity of the country.

59. Commercial banks usually offer both pre- and post-shipment financing facilities to exporters. Pre-shipment loans are granted by commercial banks to exporters at each stage of business operation, from the purchase of raw materials to the shipment of goods. These loans are normally extended by banks in at least two ways. The most frequently used technique in the countries under review is that of export bills, whereby the bank provides funds to the exporter by purchasing the collection documents, with recourse should the collection not be paid. This is because only 5 countries out of 33 possess, at the moment, guarantee schemes for pre-shipment finance. The other technique is the use of documentary acceptance financing. Under this arrangement, the bank can immediately provide funds to the exporter by discounting the banker's acceptance.

60. For the majority of developing countries, unfortunately, published data on commercial loans are too aggregative. There is no way by which one could determine pre- and post-shipment loans, since both are lumped together with other types of loans and in most cases, central banks or monetary authorities provide aggregate data under credits to "Trade and Commerce".

61. The typical terms of export transactions for the middle-income countries are cash, sight draft, documentary credit and letters of credit. As regards letters of credit, the bulk of advising and confirming functions are fulfilled by foreign international banks or their subsidiary branches.

62. Recent experience shows that in developing countries where the banking and financial system is not well developed, exporters often complain about inadequacies of trade credits, particularly to small or new exporters.

63. It is claimed that:

(a) Banks and other lending institutions are unduly cautious and conservative in their assessment of risk attached to exports and in the requirements they impose;

(b) In particular, banks are often reluctant to provide pre-shipment finance to exporters who are unable to offer suitable and sufficient collateral. Where loans are made available, "excess" security is often demanded which in turn limits the capacity of the exporter to raise additional funds in the future (see table 7);

(c) Long-term credits at fixed interest are difficult to obtain;

(d) The credits and services available to small and medium-size exporters, including subregional, ones are not sufficiently well-known or understood;

(e) There are very few institutional sources to which newly-established exporters seeking medium-term funds or innovative finance can turn;

(f) The bulk of commercial bank financing is for less than six months and 85 per cent of the exports are sold for cash or settled within 90 days; and

(g) Banks are evidently reluctant to extend trade-credit to importers. 13/

64. An evaluation of these claims raises the following questions:

(i) Is the provision of trade credits to exporters deficient, in the sense that some of the export sector is denied funds even though their contribution to the economy is above that available to alternative investments?

(ii) Do these deficiencies reflect built-in market imperfections and rigidities which impair the allocative role of the financial system, or do they reflect the overall lack of funds and financial situation of the country?

(iii) If these inadequacies do exist, can they be removed at a cost acceptable to the economy?

65. Normally, an exporter seeking trade credit is likely to approach the local commercial bank as the first point of contact. Commercial banks are currently the largest single source of short-term trade finance for exporters. The bulk of these credit activities involves transactions with settlement periods of six months or less. It is estimated that about 85 per cent of developing countries' exports are sold for cash or settlements

within 90 days. The banks' facilities - overdrafts, term loans etc. - are widely used by exporters to assist in the purchase of fixed assets, in addition to financing stocks, working capital and selling on credit.

66. Because of the heavy dependence of exporters on commercial bank finance, particularly overdrafts, it is not surprising that it has tended to be a focal point of grievance on their part, as listed above. But the banks see, for example, collateral requirements as a useful supplement to other assessment criteria and a pragmatic yardstick. It is often pointed out that:

(i) because of interest rate ceiling on small overdrafts, commercial banks are unable to charge a full commercial interest rate on small loans and have to resort to non-price rationing, including rationing based on collateral. This inevitably means that some proposals are rejected;

(ii) bank operating costs may be reduced by using a systematic loan rationing procedure such as a collateral rule. Not only are some search costs avoided but banks also make savings on technical staff and can process proposals more quickly.

67. The majority of banks reported on in the questionnaire seem to be extremely conservative. 14/ Furthermore only a few banks are reported to lend to indirect exporters. Most of the banks appear to think that indirect exporters, who are mainly small producers should only be financed under a special government lending programme.

Pre-shipment guarantee

68. At present most developing countries have some specialized insurance and/or guarantee schemes but only a few (8) offer pre-shipment finance. 15/ Furthermore, only a few banks have made use of the existing guarantee facilities. One of the major reasons for the non-use of the existing guarantee schemes is that banks carry out their own evaluation of loan application of exporters that are submitted for guarantee using their standard evaluation system, such as financial and market viability of the project, debt service capacity, and export record and credit experience. The reason for this procedure is that banks find the documentation requirements, long evaluation process and stringent evaluation criteria a serious handicap of existing guarantee schemes. Most banks would like to see simpler procedures, lower fees, high guarantee cover up to 90 per cent and a shortening of the period necessary for processing claims.

69. In addition, most commercial banks welcome the creation of insurance schemes in countries where they do not yet exist. However, most of them do not consider that they will automatically accept the export insurance policy as a collateral for loan application by exporters.

70. The implication of the above is that the majority of exporters settle cash payments or sight confirmed letters of credit which confirm the information provided on banks' credit policies mentioned earlier. Exporters prefer these methods of payment for at least two reasons: one is that it reduces the uncertainty regarding payments of goods sold to importers on whom

exporters do not have adequate information about credit record; the other reason is that small exporters need high sales turnover because most of them are self-financing their export production and trading activities.

71. However, this form of payment is not a long-lasting solution whereby exporters can continue to demand cash or on sight letters of credit especially as orders become larger and payment record of importers proves good. This is likely to create one of the major difficulties for the emerging exporters as competition from developed countries further increases through competitive interest rates and longer maturities.

72. The low level of access to working capital and post-shipment finance means that large orders would be turned down and only smaller ones would be met, thus severely constraining export production and sales.

IV. REGIONAL AND SUBREGIONAL TRADE FINANCING SCHEMES

73. In developing countries there are seven subregional and regional trade financing facilities which operate 10 short- and medium-term financing facilities, and three rediscounting facilities: the Inter-American Development Bank, the Central American Common Market Fund operated by the Central American Integration Bank, and the Arab Trade Financing Programme (table 13 below.)

The institutions are:

1. Inter-American Development Bank
   - Trade financing facility
   - Venezuelan Trust Fund
2. Latin American Export Bank (BLADEX)
3. Ecobank (ECOWAS Bank)
4. SAFICO
5. Arab Trade Financing Programme
6. Islamic Development Bank (IsDB)
   - long-term trade financing facility
   - import financing operations
   - portfolio credits
7. Central American Integration Bank
   - Central American Common Market Fund (CACMF).

74. In all there are 51 countries in the various subregional programmes that contribute to and benefit from these facilities with the countries member of the Andean group having dual access to the CACMF, SAFICO, and the Arab countries making use of the ATFP, IsDB facilities, since each group belongs to both institutions.

Table 8

Regional trade financing institutions of developing countries: comparative terms and structure of financing instruments

	Financing instruments	Coverage	Interest rate	Maturity	L/c required	Type	Eligible commodities
IsDB import financing Scheme	Loans/ lines of credit	up to 70%	7%	Short-term finance c/	Yes	post-shipment	Oil and petroleum products; manufactures
IsDB long-term trade Financing programme	Loans/ lines of credit	30-40%	8% a/	Medium- and long-term d/	Yes	post-shipment finance	capital and consumer goods; intermediate raw materials
IsDB Bank's portfolio Credits	Loans/ lines of credit	up to 60% b/	7%	Short- and medium-term e/	Yes commercial or central banks guarantee required	post-shipment	capital and consumer goods
Arab Trade Financing Scheme	Rediscounting of trade financing instruments from member countries	up to 85%	Libor plus 0.5% h/	short-term	Yes	pre- and post-shipment finance	all goods and services
Inter-American Development Bank	Loans/ lines of credit, discounting	Average 85%. In certain cases up to 100%	related to interest rates in international capital markets	short- and medium-term g/	Yes	pre- and post-shipment	semi- and manufactured goods; capital goods and services
(a) Export financing scheme				short-term	Yes	post-shipment	semi and manufactured goods
(b) Venezuelan Trust Fund							
BLADEX	Loans/ lines of credit.	up to 80%	Libor plus a variable margin	95% of credits in short-term i/ 5% medium-term credits	Yes	pre- and post shipment finance	manufactured goods; consumer, capital goods and services
Ecobank	Loans	up to 70%	Libor plus variable margin	short-term finance	Yes	Pre- and post-shipment finance	all goods and services
Safico	loans/ lines of credit	up to 60%	8%	short-term	Yes	pre- and post-shipment	semi- and manufactured goods

a/ based on a "Murabaha" principle.
b/ in the case of consumer goods and raw materials the coverage may be extended to 100 per cent.
c/ up to 24 months.
d/ up to 36 months.
e/ between 18 months and 60 months.
f/ IsDB does not have an exhaustive list of products and may finance other goods depending on the case at hand.
g/ from one to five years.
h/ plus 0.75 of one per cent on committed funds but not withdrawn.
i/ less than 180 days.

Table 9

Regional and subregional trade financing schemes:
Resources and credits extended to member countries
(In millions of US dollars)

Facility	Resources			Trade credits		
	Own	Liabilities with third parties	Total	1986	1987	1989
Inter-American Development Bank						
Ordinary capital	64.0	-	64.0			56.0
Venezuelan Trust Fund	50.0	-	50.0			42.5
- Latin American Export Bank BLADEX	94.0	330	424.0	556	630	860.9*
- Ecobank	50.0	-	50.0	-	12.4	32.1
- SAFICO	50.0	-	-	29.2	11.2	32.7
- Arab Trade Financing Programme a/	500.0	-	500.0	-	-	-
- Islamic Development Bank						
Long-term trade facility	150.0	-	150.0	-	-	54.7
Import financing operation				935.5	680.0	600.0
Portfolio credits			-	-	63.3	8.5
- Central American Integration Bank	50.0	42.3	(92.3)	2	53	50.5
Total	1 008.0	372.3	1 380.3	1 520.7	1 449.9	1 737.9

Source: Data communicated to the UNCTAD secretariat.

a/ Began operations in September 1990.

* The figures indicate year end outstanding loans and not yearly flows, which are considerably larger.

75. Table 9 above shows that all the regional trade financing schemes of developing countries combined have extended $US 1 billion in 1989 on the equivalent of 2.8 per cent of the total value of exports of non-traditional goods to other developing countries. This highlights the limited and relatively minor scope of the trade financing credits extended by regional and subregional institutions. However, a disaggregated analysis reveals that the relatively less well-off economies of the subregions have obtained some fairly significant financial assistance through the regional facilities.

76. Although it is extremely difficult to evaluate the adequacy of these credits against the needs for export finance of the smaller economies, it is nevertheless possible to conclude that the loans extended are of significant importance in their overall trade financing needs.

A. Common characteristics

77. The existing regional/subregional trade financing schemes in developing countries have some common features and other features which are different. A major common factor is their basic objective of supplying export finance or refinance to help overcome the domestic shortages of the member countries.

78. Another important common feature to these institutions is that the bulk of their credit comes from their own resources without prejudice to the fact that such resources may serve as a basis for attracting additional funds from extra-regional sources. As can be seen from table 9, only 28 per cent of the total resources of the seven facilities which they have attracted from third parties. This has been one of the main limitations on their expansion of operations and, consequently, greater attention should be paid to the possibility of mobilizing extra-regional funds.

79. In addition, all facilities give priority to the financing of exports of non-traditional goods and particularly short- to medium-term credits. However, there are no uniform patterns of lending policies which are followed by all institutions.

B. Differentiating factors

80. In addition to the difference in products financed, there are also differences in the terms of credit, interest rates charged and coverage of export invoice. For instance, the Inter-American Development Bank first facility provides finance for medium- and long-term exports of capital and manufactured goods. The second facility finances short-term transactions which are self-liquidating in nature. On the other hand the Islamic Development Bank provides three facilities which finance short-, medium- and long-term trade related credits of all international transactions.

81. There are also certain differentiating aspects which should be pointed out. In the first place, whereas the Latin American Export Bank (BLADEX), the Arab Trade Financing Programme (ATFP), the Andean Trade Financing System (SAFICO) and the ECOWAS Bank (Ecobank) have their own legal status as a

corporate body and have consolidated their own autonomy, this has not happened in the case of other facilities such as IDB's facilities, and the Central American Integration Bank.

82. Likewise there are certain differences regarding the way in which export credits are extended by these facilities. Although all facilities are empowered to finance short- and medium-term export credits, all institutions have kept to a minimum the proportion of their portfolio loans in medium- or long-term credits. Furthermore, the conditions under which they are granted are not the same (table 8). In fact only the Inter-American Development Bank, and the IsDB long-term trade financing programme specialize in medium- and long-term financing. Out of seven institutions, only the Arab Trade Financing Programme, which became operational only in September 1990, the Inter-American Development Bank and the Central American Common Market Fund provide rediscounting facilities.

83. Furthermore, there are operational differences in the access to and coverage of export invoice values. Whereas in the Islamic Development Bank, Inter-American Development Bank, and SAFICO, the poorer member countries can obtain up to 100 per cent of the value of the export invoice, middle-income and relatively developed members can obtain only up to 75 per cent of export bills.

84. It should be pointed out that there has been a difference in the interest rate charged by facilities. Whereas BLADEX, Ecobank, IDB and the Arab Trade Financing Programme apply a variable interest rate which reflects the LIBOR rate plus a margin, the other facilities have adopted a fixed interest rate which is substantially below the short-term market rates.

85. As regards the issue of mobilizing resources from outside the regions, the only institution has been the Latin American Export Bank which has been able to mobilize some $US 330 million since 1980 from the international banks, regional institutions and governmental organizations. None of the other facilities were able to tap commercial sources with the exception of the Central American Common Market Fund which obtained recently a commitment of ECU 42 million from the European Economic Community.

86. Of all the existing regional schemes only the Inter-American Bank and the newly established Arab Trade Financing Programme (September 1990) refinance export credits for both intraregional and interregional trade.

87. Finally, there are differences in the operational procedures, structure of windows and credit provided by the various institutions. 16/

C. Clearing arrangements reserve funds

88. The existing clearing and payment arrangements of developing countries do not provide significant amounts of credit to the participating countries. 17/ In fact, the only "credits" afforded by such an arrangement are the short-term facilities which each country must grant to the others between successive settlement dates. When settlements occur at monthly or quarterly intervals,

such interim finance can become fairly large. But at the settlement dates, all outstanding balances must be paid off by transfers of reserve assets among the participating central banks. Hence, the credit facilities provided by clearing arrangements cannot supply significant credit to a country experiencing balance-of-payments problems. Those problems normally endure for more than a single month or quarter.

89. As regards Credit and Reserve Funds among developing countries, they can make a more direct and substantial contribution to trade expansion by financing cyclical imbalances arising in the course of trade expansion.

V. ASSESSMENT OF CURRENT TRADE FINANCING AND FUTURE FINANCIAL REQUIREMENTS

90. It is extremely difficult to assess the needs for future trade credits because the future share of mutual trade in world trade fluctuates frequently. The source of finance for South-South trade is not documented and the proportion of non-traditional trade to total trade is increasing. Notwithstanding these qualifications, it is possible to obtain an order of magnitude for these financial requirements.

91. Increasingly, export growth in a number of countries has been diversified into non-traditional goods. Non-traditional exports grew at an average rate of 28.1 per cent in current dollars in the period 1970-1980 compared with 13.8 per cent of agricultural raw materials. 18/ The share of non-traditional goods in total export increased from 21.9 per cent in 1975 to 28.6 per cent in 1981, and 49.6 per cent in 1987. 19/ (table 10) As exports continue to grow, developing countries will be forced to mobilize increasing amounts of finance for trade-related activities. Based on recent experience, it is reasonable to assume that they will continue to be able to secure financing for expanded exports of traditional commodities which have relatively ready access to local and international financing. What is less obvious is the availability of the medium- and longer-term financing for the growth of non-traditonal exports that is such an integral part of developing countries' development strategy.

92. In this report, non-traditional exports are projected to lead future export increases and are expected to increase under the first scenario by an annual average of 7.5 per cent by the year 2000, rising from $US 62.2 billion in 1987 to $US 160.9 billion in 2000.

93. As developing countries continue to expand non-traditional exports into more competitive markets and as capital goods become a more and more important factor in non-traditional exports, the increase in the need for credit is likely to exceed the growth in exports. However, even if the increase in export credit matches the growth in exports, export credit for such merchandise should rise from $US 96.6 billion in 1987 to $US 147.5 billion in 1995 and $US 193.3 billion in 2000 (table 10).

Table 10

Structure and projection of developing countries' exports to other developing countries
(in current 1970 dollars; US dollars billion)

Year	Total exports		Exports of traditional goods			Exports of non-traditional goods a/		
	US dollars	Growth rate percentage period average	US dollars	Growth rate percentage	Share in total exports percentage	US dollars	Growth rate	Share in total exports percentage
1970	11 241	1970-80	7 839		69.7	3 402	1970-80	30.3
1973	22 873		16 144		70.6	6 729		29.4
1974	47 425		37 032		78.1	10 393		21.9
1975	49 083	28.9%	37 139		75.7	11 944	28.1%	24.3
1976	57 958		43 945		75.8	14 013		24.2
1977	68 881		50 936		73.9	17 945		26.1
1978	71 074		49 340		69.4	21 734		30.6
1979	101 094		72 183		71.4	28 911		28.6
1980	138 729		101 730		73.4	36 999		26.4
1981	143 956	1980-87	100 345		69.7	43 611	1980-87	30.3
1982	137 669	-2.2%	96 254		69.9	41 415	5.6%	30.1
1983	129 014		88 599		68.7	40 415		31.3
1984	132 387		89 177		67.4	43 210		32.6
1985	139 014		93 731		67.4	45 283		32.6
1986	121 714		73 001		59.9	48 713		40.1
1987	132 303		63 375		50.4	62 248		49.6
.		Scenario I						
.								
.		Total exports are expected to grow at an annual average of 8.5 per cent and non-traditional exports at 7.5 per cent between 1987 and 2000.						
1995	245 427					112 050	1995	
.								
.								
.								
.								
2000	369 039.3					160 860	2000	
		Scenario II						
		Total exports are expected to grow at 4.5 per cent and non-traditonal exports at 5.5 per cent between 1987 and 2000.						
1995	188 042					95 531		
2000	234 335					124 855		

Source: UNCTAD Handbook of International Trade and Development Statistics;
For assumptions see discussion in the text.

a/ Non-traditional exports are defined as SITC 5+6+7+8+(68)

94. As outlined above, the present financial facilities provided by existing domestic and regional institutions are likely to prove inadequate to supply the necessary funds at competitive commercial rates to finance non-traditional exports. The domestic export financing institutions, because of their financial constraints have in general been able to handle only relatively small amounts of financing. Commercial banks which are the major source of funds for trade, have shown a marked preference for the generally shorter-term export credits for traditional goods and for some non-traditional goods, such as manufactures which can also meet stringent conditions. Other existing sources such as international organizations or regional trade financing mechanisms are also very limited.

A. Estimation of outstanding and projected export credits

Scenario I

95. The lack of complete data on the volume and composition of outstanding export credits prevailing in markets for the various categories of exports of developing countries makes the task of evaluating financial requirements extremely difficult. However, an attempt is made in this study to estimate the outstanding volume of credits on the basis of available information on representative countries. The figures obtained are at best indicative of the order of magnitude only.

96. The volume of trade credit outstanding has been calculated by weighting exports by the number of months for which financing was assumed to have been provided for each category of goods: traditional and non-traditional exports, and the latter subdivided into capital goods, consumer durables and other manufactures. 20/ The number of months assumed for each group of developing countries was based on responses to an UNCTAD questionnaire by export agencies of developing countries. The terms used are described below.

Table 11

Average maturity of trade credits (months)

	Group I a/	Group II b/	Group III c/	Group IV d/
Traditional exports	2.0	2.0	1.7	1.9
Non-traditional exports, of which:				
- capital goods	56.2	48.0	36.2	48.4
- consumer durables	2.4	2.0	1.8	2.1
- other manufactures	5.7	4.8	4.1	5.2

a/ Group I represents the newly industrialized countries as defined in UNCTAD Handbook on International Trade and Development Statistics.

b/ Group II included middle income countries with average export of non-traditional exports ranging between $US 340 and 2,500 million.

c/ Group III represents the Least Developed Countries.

d/ Group IV represents all developing countries.

97. In the information provided in the UNCTAD 1989 questionnaire on export and trade-related credits, the terms of trade credits have been weighted by the various export categories. The experience of the Republic of Korea and Taiwan, Province of China, Yugoslavia and Hong Kong is assumed to be representative of the newly industrialized countries and territories, while Colombia, Malaysia, Tunisia, Nigeria, Jordan, Turkey and Chile are taken to represent Group II middle-income countries, with Bangladesh, Malawi and Bolivia representing Group III of the least developed countries.

98. Total exports of all developing countries to each other in 1987 21/ were $US 132.3 billion, of which $US 62.3 were non-traditional goods. Of this, $US 21.7 billion were exports of capital goods and machinery and $US 32.8 billion of other manufactured goods. The remaining $US 7.8 billion were exports of chemical products. Traditional and non-traditional exports are expected to grow by 7.5 per cent and 8.5 per cent respectively in real terms by the year 2000, on the assumption that developing countries' exports would reach the levels shown in table 12.

Table 12

Projected exports

(In billion US dollars)

	1987	1995	2000
Total exports	132.3	245.4	369.0
Traditional exports	70.0	132.9	208.5
Non-traditional	62.3	112.5	160.8
- capital goods	21.7	39.2	55.9
- consumer goods	32.8	59.2	84.4
- other manufactures	7.5	14.1	20.2

99. If one assumes the average maturity of trade credits in table 12 above are representative of the outstanding credits, the estimated exports credits outstanding in 1987, 1995 and 2000 will be as shown in table 13.

Table 13

High scenario

Estimation of developing countries' outstanding credits and future financial requirements
(In billion US dollars)

	1987	1995	2000
Total trade credit outstanding a/	108.3	196.8	283.9
Traditional	11.7	22.2	34.8
non-traditional	96.6	174.6	249.1
capital goods	87.5	158.1	225.5
consumer durables	5.8	10.4	14.8
other manufactures	3.3	6.1	8.8
Average annual credit requirement b/	1988-1995	1996-2000	
Total exports	11.1	17.4	
traditional	1.3	2.5	
non-traditional	9.8	14.9	

Note: Trade credits are calculated as follows:

$$\frac{\text{Average maturity in months X total exports}}{\text{12 months}}$$

a/ Note: The proportion of credits obtained for traditional and non-traditional to total non-traditional + traditional exports in 1987 was assumed to remain constant for 1995 and 2000.

b/ The average annual requirement is equal increase in export credits/years.

100. On the basis of these estimations, about $US 108 billion appears to be the order of magnitude of total trade related credits outstanding in 1987. For non-traditional exports, the outstanding credit is estimated to be $US 96.6 billion. The amount of outstanding credits is expected to grow from $US 96.6 billion in 1987 to $US 174.6 billion in 1975 and $US 249 billion in 2000. The difference between the 1987 and 1996-2000 levels will have to be financed either from new domestic or international sources. The implication is that by 1995 the amount of non-traditional export credit needed will have to be increased annually by about $US 9.8 billion between 1991 and 1995 and by as much as $US 14.9 billion during the period 1996-2000.

101. The projections assume that the composition of non-traditional exports remain constant over the period under review.

Scenario II

102. The second scenario assumes a lower rate of growth of exports of developing countries of 4.5 per cent of total exports to other developing countries and 5.5 per cent of non-traditional goods. On the basis of these assumptions, total exports will grow from $US 132.3 billion to $US 188.1 billion in 1995 and $US 234.4 billion in 2000. Exports of non-traditional exports will increase from $US 62.3 billion in 1987 to $US 95.5 billion in 1995 and $US 124.9 billion in 2000. (table 14 below.)

Table 14

Projected exports

(In billion US dollars)

	1987 a/	1995	2000
Total exports	132.3	188.1	234.4
Traditional goods	70.0	92.6	109.5
Non-traditional goods	62.3	95.5	124.9
Capital goods	21.7	33.2	43.5
Consumer goods	32.8	50.2	65.7
Other manufactures	7.5	12.0	15.7

a/ Latest year for which data are available.

103. Other things being equal, the order of magnitude of total trade credits would grow from $US 108.3 billion in 1987 to $US 162.9 billion in 1995 and $US 211.6 billion in 2000. This means that by 1995, finance for non-traditional exports would need to be increased by an annual average of $US 6.3 billion and $US 500 million for traditional exports and by $US 9.1 billion for non-traditional exports over the period 1995-2000 and by $US 600 million for traditional exports. (table 15 below.)

Table 15

Scenario II

Estimated outstanding trade credits and average annual financing requirements
(In billion US dollars)

	1987 1/	1995	2000
Total outstanding credits a/	108.3	162.9	211.6
Traditional	11.7	15.4	18.3
Non-traditional	96.6	147.5	193.3
Capital goods	87.5	133.9	175.5
Consumer goods	5.8	8.8	11.5
Other manufactures	3.3	4.8	6.3
	1988-1995	1996-2000	
Average annual financing requirement			
Total	6.8	9.7	
Non-traditional goods	6.3	9.1	
Traditional goods	0.5	0.6	

a/ See footnote a/ and b/ in table 13.

B. Conclusion

104. Regardless of the assumptions and the figures arrived at above, both scenarios underscore the relatively important financial needs for trade finance by developing countries. It is undoubtedly true that a large proportion will be provided by commercial banks, both domestic and international, as well as by central banks. A question, however, remains as to what will be the financial gap or, as defined at the beginning of this report, what will be the amount of "financial rationing" and how many exporters will be denied trade credits and hence excluded from world trade? If one assumes that commercial banks which are the major source of credits maintain their present attitude towards risk aversion, then it would be reasonable to assume also that at least 50 per cent of the financial gap suggested under both scenarios (some $US 4.5 billion or $US 7.4 billion) will represent the estimated financial gap. The related issues, however, are:

(i) What are the appropriate actions to remove correctly the "adverse selection" hurdle? Is it necessary to provide a pooling of risk at the regional level in order to minimize the problem of financial rationing? 22/

(ii) If so, should the issue of "adverse selection" be addressed through the revitalization of existing subregional mechanisms? Should it be spread at the interregional level or should risks be minimized through the participation of economically viable multinational enterprises? 23/

Table 16

Indicators of export and growth performance in selected developing countries, 1970-1987
(Percentage)

	Average annual real rate of growth of GDP		Average annual rate of growth of real manufacturing value added		Average annual rate of growth of real manufactured exports		Share of manufactures in exports	
	1970-1987	1980-1987	1970-1987	1980-1987	1970-1987	1980-1987	1970	1987
Argentina	1.2	-0.7	0.5	-1.2	3.1	-4.6	13.9	2.2
Bolivia	1.7	-1.6	0.5	-5.8	-4.9	-11.4	5.1	0.5a/
Brazil	6.2	2.8	6.0	1.2	15.4	4.5	13.2	44.1a/
Chile	2.0	1.3	1.0	0.8	11.3	2.3	19.4	12.3b/
Colombia	4.5	3.2	4.5	3.0	9.7	-	8.0	19.4
Costa Rica	3.8	1.3	8.0	1.0	7.9	2.3	18.7	36.0
Ghana	0.7	1.1	-1.1	-0.3	-0.4	0.7	0.5	2.4
India	3.9	4.9	5.7	8.2	4.9	2.9	52.1	58.3a/
Indonesia	6.1	3.8	11.3	7.4	31.8	39.7	1.2	19.8b/
Côte d'Ivoire	4.1	1.4	4.5	-2.3	7.7	-2.4	6.0	9.3a/
Jamaica	-0.2	1.0	-0.4	2.1	-0.6	-6.7	46.3	66.1b/
Republic of Korea	8.5	8.7	13.6	10.8	22.3	15.3	76.5	92.8
Malaysia	6.5	4.6	9.5	6.6	17.9	16.4	8.2	40.1
Mauritius	6.0	6.2	8.2	11.1	27.8	13.1	1.8	41.8b/
Mexico	4.2	1.0	4.3	0.4	14.1	19.2	35.1	35.6
Morocco	4.0	2.8	3.9	1.6	15.8	14.1	9.7	48.9
Nigeria	2.1	-2.2	8.0	0.0	4.7	-2.0	0.8	- b/
Pakistan	5.6	6.8	7.0	9.1	4.4	11.5	57.2	72.0
Peru	3.1	2.1	3.0	2.5	19.4	-4.6	1.4	22.6b/
Philippines	3.8	0.4	4.0	-0.0	17.9	4.2	7.5	33.8b/
Senegal	2.5	3.5	3.4	5.1	1.0	4.1	18.8	14.9b/
Singapore	7.7	5.9	8.3	4.6	16.6	6.4	27.5	66.8
Thailand	6.2	5.6	8.4	6.0	19.3	13.5	5.3	52.1
Turkey	5.3	5.5	6.4	8.3	26.0	35.9	8.9	66.8
Uruguay	1.5	-0.6	1.4	-1.1	5.1	0.5	20.4	44.1
Venezuela	1.8	0.5	4.1	2.7	14.0	15.6	1.4	8.5b/
Yugoslavia	3.8	0.9	5.3	1.5	5.9	1.3	66.9	83.1

Source: UNCTAD secretariat, based on data of the United Nations Statistical Office and World Bank, World Tables.

a/ 1986
b/ 1985

Table 17

Intra-trade of developing countries and territories by economic grouping

Economic Grouping	Value of intra-trade (millions of US dollars)						Exports to other developing countries as a per cent of total group exports						Intra-trade of group as a per cent of total exports of each group					
	1970	1976	1980	1984	1986	1988	1970	1976	1980	1984	1986	1988	1970	1976	1980	1984	1986	1988
ECOWAS[7]	61	478	1 056	500	491	648	8.6	20.5	6.2	17.0	18.0	26.3	2.1	3.1	3.9	2.5	3.2	4.9
ASEAN[1,2]	860	3 619	11 918	14 428	11 096	18 277	31.7	30.3	35.6	37.5	36.0	37.6	14.7	13.9	17.8	18.5	16.7	17.5
Bangkok Agreement	47	142	517	1 756	994	1 109	20.4	25.7	31.7	27.6	22.4	23.3	1.5	1.0	1.8	4.3	2.2	1.4
CACM[3]	299	653	1 141	780	620	495	29.6	29.2	30.8	30.2	30.0	24.0	26.8	21.6	22.0	19.7	17.7	14.4
CARICOM[4]	73	212	354	316	300	174	16.6	17.6	20.0	12.0	11.8	12.0	7.3	6.7	6.4	4.2	5.4	3.3
CEAO[5]	73	177	296	306	300	499	15.1	13.6	15.9	18.5	17.9	25.4	9.1	6.7	6.9	7.4	6.5	10.4
CEPGL[6]	2	3	5	10	8	10	6.5	31.4	49.7	10.0	10.3	13.1	0.2	0.1	0.2	0.7	0.6	0.7
LAIA[8]	1 290	4 434	10 270	8 120	8 220	9 769	21.2	26.9	28.1	25.1	25.9	22.2	10.2	12.8	13.5	9.2	11.5	10.7
of which ANDEAN[9]	109	594	955	722	622	968	29.3	36.2	31.6	31.4	19.0	25.2	2.3	4.2	3.5	3.3	3.3	5.2
MARIUN[10]	-	2	2	4	4	6	4.4	1.8	8.7	23.7	15.4	12.7	0.1	0.2	0.1	0.4	0.4	0.6
ECO[11]	43	180	500	2 510	1 750	1 194	18.6	18.6	34.0	39.0	37.6	32.5	1.1	0.7	2.7	11.0	9.1	4.5
UDEAC[12]	33	75	200	100	84	117	11.9	15.0	22.5	10.0	10.0	16.5	3.4	3.9	4.1	3.5	3.0	3.6
TOTAL	2 781	9 975	26 206	28 832	23 867	32 298	-	-	-	-	-							

Source: "Handbook of International Trade and Development Statistics". United Nations Publication Sales No. E/F/88.II.D.11, New York, 1989 and previous issues.

1. Association of South-East Asian Nations, 1967.
2. Figures adjusted to exclude entrepôt trade. Figures for Singapore exports to Malaysia and Thailand are derived from import statistics of these two trading partners.
3. Central American Common Market, 1960.
4. Caribbean Community, 1968; Eastern Caribbean Market not included.
5. Communité des Etats d'Afrique de l'ouest, 1959.
6. Commitée des Pays du Grand Lac, 1976.
7. Economic Community of the West African States, 1975.
8. Latin American Integration Association, formally LAFTA, 1960.
9. Andean Group, 1969.
10. Mano River Union, 1973
11. Economic Co-operation Organization.
12. Union douanière des Etats d'Afrique Central, 1964.

Table 18

Trends in production and trade in selected sectors, 1980-1988
(Percentages)

	Average annual rate of growth of output 1980-88	Exports a/			Imports a/		
		Average annual growth rate 1980-87	Shares		Average annual growth rate 1980-87	Shares	
			1980	1987		1980	1987
Manufacturing industries							
World	3	7	100	100	7	100	100
Developed countries	3	6	83	78	8	64	71
Developing countries	5	14	9	15	2	26	20
Iron and steel							
World	1	1	100	100	1	100	100
Developed countries	-1	0	85	76	2	56	60
Developing countries	7	11	6	11	-2	29	22
Road motor vehicles							
World	2	8	100	100	8	100	100
Developed countries	2	8	91	92	11	74	88
Developing countries	5	21	2	4	-3	24	11
Consumer electronics							
World	..	12	100	100	12	100	100
Developed countries	..	10	84	79	12	78	78
Developing countries	..	16	14	19	12	20	20
Textiles							
World	1	6	100	100	6	100	100
Developed countries	0	4	70	60	6	64	63
Developing countries	3	11	22	30	6	29	28
Clothing							
World	1	10	100	100	10	100	100
Developed countries	-1	7	51	42	11	79	85
Developing countries	4	15	37	48	5	13	9

Source: UNCTAD secretariat, based on data of the United Nations Statistical Office. See TD/B/1240/Add.1.

a/ Underlying data in current dollars.

Table 19

Average annual rates of growth of import volumes, 1970-1990
(Percentages)

	1970-1980	1980-1985	1985-1987	1988	1989a/	1990a/
WORLD	4.3	1.7	4.2	8.8	9.1	9.2
Developed market-economy countries	3.6	1.4	5.9	7.9	8.3	7.5
Developing countries	7.2	1.5	0.0	13.2	14.2	15.7
Africa	5.8	0.9	-8.1	0.5	2.0	3.0
Latin America	4.1	-2.3	2.5	10.7	8.0	12.0
South and South-East Asia	8.0	4.1	7.5	22.9	23.0	22.5
East Asia four b/	9.8	5.3	11.3	26.5	27.0	27.5
ASEAN four c/	6.6	0.7	3.1	22.7	16.0	19.0
West Asian oil exporters d/	18.0	0.3	-17.0	-2.2	2.5	6.5
Other West Asia e/	6.0	3.4	-2.7	7.4	8.5	9.5
China	11.9	15.4	-15.4	18.6	12.0	15.0

Source: UNCTAD secretariat, based on data of the United Nations Statistical Office. See TD/B/1240/Add.1, op. cit.

a/ Forecast.

b/ Hong Kong, Republic of Korea, Singapore, Taiwan, Province of China.

c/ Indonesia, Malaysia, Philippines, Thailand.

d/ Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia, Bahrain, Oman, Qatar, United Arab Emirates.

e/ Includes developing countries of Europe (Cyprus, Malta, Turkey, Yugoslavia).

Table 20

Value of total imports, by region, 1970-1990
(Billions of dollars and percentages)

	Value						Share of total imports		
	1970	1980	1985	1986	1987	1988	1970	1985	1988
WORLD	321.1	2 049.4	1 921.7	2 069.7	2 430.2	2 776.0	100.0	100.0	100.0
Developed market-economy countries	216.1	1 354.3	1 260.6	1 404.3	1 674.0	1 899.7	70.3	67.5	70.3
Developing countries	58.2	459.7	430.5	423.4	490.0	582.2	18.1	22.4	21.0
Africa	11.2	72.5	61.7	58.5	62.9	66.6	3.5	3.2	2.4
Latin America	18.0	114.9	93.3	95.1	105.0	120.0	5.6	4.9	4.3
South and South-East Asia	18.1	155.3	169.6	172.5	220.5	286.4	5.6	8.8	10.3
East Asia four a/	8.7	89.0	103.4	107.8	144.9	193.4	2.7	5.4	7.0
ASEAN four b/	4.9	38.0	35.8	33.1	41.6	54.2	1.5	1.9	2.0
West Asian oil exporting countries c/	4.1	72.2	61.6	54.9	52.4	55.2	1.3	3.2	2.0
Other West Asia d/	6.8	44.8	44.2	42.3	49.1	54.0	2.1	2.3	1.9
China	2.3	20.2	37.2	30.7	32.2	41.2	0.7	1.9	1.5

Source: UNCTAD secretariat, based on data of the United Nations Statistical Office. See TD/B/1240/Add.1, op. cit.

a/ Hong Kong, Republic of Korea, Singapore, Taiwan, Province of China.
b/ Indonesia, Malaysia, Philippines, Thailand.
c/ Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia, Bahrain, Oman, Qatar, United Arab Emirates.
d/ Includes developing countries of Europe (Cyprus, Malta, Turkey, Yugoslavia).

Table 21

Average annual rates of growth of export volume, by major product group, 1970-1990
(Percentages)

	1970-1980	1980-1985	1985-1987	1988	1989a/	1990a/
	World exports					
All products	4.3	1.7	5.0	8.5	6.5	6.6
Manufactures	7.1	3.5	4.6	9.6	7.5	7.8
Food and beverages	4.2	3.1	10.0	1.6	1.3	4.7
Other non-oil primary commodities	2.3	1.1	4.2	3.8	4.0	3.7
Oil	-0.2	-4.2	4.0	10.9	7.3	5.3
	Exports of developing countries					
All products	2.1	-2.0	6.7	11.3	10.3	9.6
Manufactures	12.7	4.5	13.7	14.3	13.4	10.4
Food and beverages	1.7	4.2	7.1	5.2	6.0	6.5
Other non-oil primary commodities	1.6	1.2	-1.8	8.6	5.5	5.5
Oil	0.3	-13.5	13.6	14.3	10.0	9.5

Source: UNCTAD secretariat, based on data of the United Nations Statistical Office. See TD/B/1240/Add.1.

a/ Forecasts.

Table 22

Annual average growth rates of exports and imports by economic grouping
(Percentages)

	Exports (f.o.b.)				Imports (c.i.f.)			
Economic grouping	1970-1975	1975-1980	1986-1987	1987-1988	1970-1975	1975-1980	1986-1987	1987-1988
A. All developing countries	36.0	20.3	20.0	12.8	30.0	19.0	14.9	15.8
B. By category								
Major petroleum exporters	50.1	20.4	12.7	0.0	37.8	19.6	0.8	10.4
Other developing countries of which	24.2	20.0	23.7	18.5	27.1	18.8	20.4	17.5
Major exporters of manufactures	28.8	24.2	29.0	22.1	30.9	22.1	28.5	24.5
Remaining countries of which	21.4	16.5	15.4	12.3	24.7	16.2	12.5	9.8
Latin America	24.9	15.7	-1.6	11.9	24.8	14.8	5.1	6.2
Africa	18.0	13.3	13.4	1.7	24.2	13.2	8.3	2.0
West Asia	26.1	13.6	30.6	12.5	35.7	15.4	17.5	6.0
South and South-East Asia	19.7	20.6	25.3	17.8	22.8	20.8	19.2	18.7
Least developed countries	10.7	15.3	11.3	3.4	17.7	17.9	12.2	-0.2
C. By income group								
Per capita GDP 1980								
over 1,500 dollars	40.7	20.7	21.5	13.1	32.8	20.0	15.9	18.5
500-1,500 dollars	26.7	19.6	17.5	11.8	26.5	16.2	13.6	12.6
under 500 dollars	23.1	17.8	11.8	12.0	22.8	17.7	11.2	3.9

Source: UNCTAD Handbook of International Trade and Development Statistics.

Table 23

Value of total exports, by region, 1970-1990
(Billions of dollars and percentages)

	Value						Share of total world's exports		
Year	1970	1980	1985	1986	1987	1988	1970	1985	1988
WORLD	321.1	2 049.4	1 921.7	2 069.7	2 439.8	2 775.6	100.0	100.0	100.0
Developed market-economy countries	216.1	1 224.1	1 230.3	1 421.7	1 684.8	1 931.6	70.4	65.9	71.3
Developing countries	59.9	591.5	462.8	403.3	491.5	557.7	18.7	24.1	20.1
Africa	12.7	98.1	61.6	46.6	46.8	46.2	4.0	3.2	1.7
Latin America	18.2	111.4	110.7	86.8	94.5	109.8	5.7	5.8	4.0
South and South-East Asia	15.0	148.0	169.1	176.0	228.5	282.1	4.7	8.8	10.2
East Asia four a/	6.6	78.4	101.8	114.6	154.3	193.6	2.0	5.3	7.0
ASEAN four b/	4.7	47.9	48.5	42.0	52.6	63.8	1.5	2.5	2.3
West Asian oil exporting countries c/	10.1	211.0	94.4	66.6	88.5	81.9	3.2	4.9	3.0
Other West Asia d/	3.9	23.0	27.0	27.3	33.2	37.7	1.2	1.4	1.4
China	1.9	18.7	27.3	30.9	39.3	47.2	0.6	1.4	1.7

Source: UNCTAD secretariat, based on data of the United Nations Statistical Office. See TD/B/1240/Add.1.

a/ Hong Kong, Republic of Korea, Singapore, Taiwan, Province of China.
b/ Indonesia, Malaysia, Philippines, Thailand.
c/ Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia, Bahrain, Oman, Qatar, United Arab Emirates.
d/ Includes developing countries of Europe (Cyprus, Malta, Turkey, Yugoslavia).

Table 24

Average annual rates of growth of manufactured exports, in volume, by major country group, 1970-1990
(Percentages)

	1970-1980	1980-1985	1985-1987	1988	1989a/	1990a/
WORLD	7.1	3.5	4.6	9.6	7.5	7.8
Developed market economy countries	6.8	2.9	2.8	8.8	7.6	7.8
Developing countries	12.7	4.5	13.7	14.3	13.4	10.5
Africa	7.1	10.2	11.9	1.0	6.6	10.7
Latin America	11.2	3.4	-5.0	14.6	7.4	7.3
South and South-East Asia	14.4	7.5	22.2	17.0	14.9	14.8
East Asia four b/	17.2	8.1	22.0	16.2	14.3	13.2
ASEAN four c/	11.5	10.3	27.6	22.7	18.0	21.3
West Asian oil exporting countries d/	17.3	-13.1	9.0	2.4	9.2	7.4
Other West Asia e/	11.0	9.4	-2.8	2.6	2.1	2.5
China	13.7	13.3	34.0	16.0	8.3	10.3

Source: UNCTAD secretariat, based on data of the United Nations Statistical Office. See TD/B/1240/Add.1, op. cit.

a/ Forecast.

b/ Hong Kong, Republic of Korea, Singapore, Taiwan, Province of China.

c/ Indonesia, Malaysia, Philippines, Thailand.

d/ Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia, Bahrain, Oman, Qatar, United Arab Emirates.

e/ Includes developing countries of Europe (Cyprus, Malta, Turkey, Yugoslavia).

Notes

1/ See annex to this report.

2/ Japan EximBank is the only export credit agency whose status allows it to extend credits for exports from a third party.

3/ Non-traditional goods refer mainly to manufactured goods excluding steel, fertilizers, pulp and paper, which have been traditionally traded on the same basis as primary commodities. They include consumer durables, capital goods and other manufactures.

4/ Within this context, it is worth recalling that exports are a dynamic factor in overall growth providing needed foreign exchange and employment opportunities. Developing countries are aware of the need to diversify exports beyond the traditional commodity exports, conscious of the importance of the industrialization process associated with trade expansion, be it in its import substitution phase or with the more dynamic export expansion phase with the local manufacturing industries exporting both to developed and other developing countries. This process is well under way in many developing countries and, as a result, patterns of trade have been transformed. A large and growing number of developing countries no longer simply export primary products and import manufactured goods, but import and export both.

5/ "A questionnaire on trade financing and credit guarantee schemes of developing countries: 1989 Survey", UNCTAD/ECDC/Misc.55.

6/ It is recognized that some of the major impediments of trade flows among developing countries cannot be directly attacked by trade financing arrangements, both domestic and regional ones. Trade finance cannot eliminate obstacles to trade arising from imperfect transportation and communication facilities. They cannot remove governments' concern about the loss of customs' revenue. They cannot protect domestic industries against competition from other countries either. See Trade expansion among developing contries: Constraints and measures to overcome them. UNCTAD Secretariat, TD/B/1260, August 1990.

7/ All governments recognize that the contribution of these trade financing facilities to the solution of foreign exchange shortage to which those arrangements are chiefly addressed, may be substantial. They can be of assistance by providing short-term self-liquidating credits so that trade flows are not interrupted. They may also be designed to provide medium- and long-term finance for the production and export of capital goods. An equally important contribution of a trade financing facility is not so much to remove restrictions on trade among developing countries but rather to facilitate the expansion of trade by providing more economical methods of intra-trade finance and/or by allaying fears that trade expansion arising from the GSTP may cause serious balance-of-payments problems of the participating countries.

8/ For detailed descriptions of the systems operated in developed market-economy countries, see OECD, The export credit financing systems in OECD member countries (Paris, 1990).

9/ The major components of the monetary base are the Net Foreign Assets (NFA) and the Net Domestic Assets (NDA). The latter can be more readily controlled by the Central Bank. Net Domestic Assets can be further decomposed into net credit to the public sector (NCPS), net credit to the deposit money banks (NCDMB) and others. The action of the Central Bank with respect to its rediscounting window is reflected in the NCDMB. For instance if the Central Bank increases its rediscounting of trade credit loans, then NCDMB increases, ultimately resulting in an increase in the monetary base, other things being equal. However, increases in the monetary base arising from the rediscounting window may be completely offset by conducting a sterilizing open market operation.

10/ Modernization of the pre-shipment financing techniques could allay fears of the central banks regarding the possible impact of refinancing loans of indirect exporters on the monetary base.

11/ See The Banker, February 1990 and March 1989.

12/ See section on the central bank.

13/ From the point of view of the banks, there are a number of perceived difficulties in extending financing to exporters. The most common of these is that importers often do not appear to be creditworthy. This perception stems from the fact that many banks, which do not have correspondence relationships with other banks in the country of the importer, have very little information about the creditworthiness of importers except the big ones. At present, there is no available mechanism by which local banks can obtain information about the credit record of the large number of importers from other developing countries at a lower cost. The second most common difficulty in extending financing to exporters is that the required maturity of trade credit is perceived to be too long. Commercial banks appear to have a strong preference for short-term loans. As pointed out earlier, the typical maturity of trade credits is less than a year and most of these credits are self liquidating. It is rare that commercial banks extend medium- or long-term finance which most exporters want to obtain. A third common difficulty concerns the relatively high interest rate which prevails in most developing countries. Most exporters turn away from banks because of their inability to pay high interest rates, particularly in view of the security conditions imposed by banks and discussed above.

14/ The average coverage of an export transaction is 70 per cent of the value of a letter of credit. However, in certain reported cases, new exporters have not been able to secure credit despite their possession of an irrevocable letter of credit. Certain banks require, in addition to a letter of credit, the provision of a real estate, deposits or placements with the bank as a collateral. The value of the collateral ranges between 100 per cent and 150 per cent of the loan value (see table 7). Earlier studies prepared by the UNCTAD secretariat supported the need for establishing an international mechanism to refinance export credits extended by developing countries.

15/ For a full account of export credit insurance schemes in developing countries and developed countries, see the report by the UNCTAD secretariat entitled: Export credit insurance as a means of expanding and diversifying exports of manufactures from the developed countries (United Nations publication, sales No. E.76.II.D.6; "Institutional arrangements in developing countries for industrial export finance with a view to expanding and diversifying their exports of manufactures and semi-manufactures", United Nations publication, Sales No. E.80.II.D.6 and for a comprehensive assessment of export credit guarantee facility see UNCTAD reports TD/B/AC.33/2 Add.1; TD/B/AL.33/1; TD/B/C.3/164, and Add. 1 and report prepared by P.B. Sotagopan "Export credit guarantee facility: a technical study", UNCTAD, TD/B/655/Add.2: "Report concerning a proposal for an export credit guarantee facility" prepared by Kearns International; "An export credit guarantee facility: An examination of technical issues", (TD/B/665 and Add.1) and "Export credit guarantee facility: further examination of technical issues" TD/B/C.3/147.

16/ The IDB Facility refinances short-term as well as medium-term export credit. It operates three programmes with the following characteristics: the first, a programme which refinances eligible export credits on terms up to 180 days with a coverage of 85 per cent for the relatively less developed countries, 65 per cent for middle income countries and 50 per cent for the more developed member countries. The second programme refinances medium-term exports of capital goods and services among member countries. The third programme is geared towards medium- and long-term refinancing for up to 5 years and covers up to 85 per cent of export countries extended by national agencies of all member countries. These programmes are funded from two sources. First IDB's ordinary capital contributes $US 60 million for the medium-term refinancing and $US 4 million for short-term finance of intraregional trade.

Credit is extended in three forms: (a) the granting of global revolving lines of credit to national agencies designated by borrowing countries; (b) entering into agreements on lines of credit with such agencies, either to procure the credit instruments they may issue or discount the credit instruments acquired by them; and (c) carry out other operations to meet the needs of member countries which the IDB may decide appropriate.

The Latin American Export Bank is a specialized bank established in 1979 for the purpose of promoting exports from countries in Latin America and the Caribbean. The initial paid-in capital was $US 25 million allocated among 186 shareholders. As of end 1985, the paid-in capital increased to $US 94 million and the number of shareholders to 284. The shareholders consist of Central Banks from 22 countries, Latin American commercial banks, the International Finance Corporation and international commercial banks.

BLADEX was set up to provide short-term pre- and post-shipment export financing to shareholder banks from the member countries for use by them or on lending to exporters. Since 1979, the cumulative invoice value of exports financed by BLADEX amounted to $US 13.7 billion.

BLADEX has followed a policy which allowed to keep the majority of its loan portfolio in credits with maturities of less than 180 days. As of end 1989, 95 per cent of its portfolio is composed of short-term trade related loans with an average term of 90 days. The short-term credits are all self-liquidating in nature.

To supplement its own capital, BLADEX has mobilized funds from inter-bank market, short-term credit facilities and term obligations issued to regional and interregional banks, governmental and international agencies.

17/ cf. "Clearing and payments arrangements among developing countries: recent developments and long term implications" UNCTAD/ST/ECDC/203, August 1990.

18/ See TD/B/1240/Add 1.

19/ Latest year for which data are available.

20/ See UNCTAD, Handbook of Trade and Development Statistics, 1989.

21/ Latest year for which data are available.

22/ See K.J. Arrow "The role of securities in the optimal allocation of risk-bearing", in Review of Economic Studies, vol. 31, pp. 91-96, April 1964; and G. Debreu, Theory of Value, (Wiley, New York, 1959), chapter 7.

23/ These issues are addressed in a report entitled "The feasibility of a trade financing facility" being prepared by an UNCTAD consultant.

Annex

THE EXPORT EXPERIENCE OF DEVELOPING COUNTRIES' MUTUAL TRADE SINCE THE 1970s

1. Over the past two decades, regardless of the structure of the global economic conditions, the developing countries, particularly those of the Asian region, have come to play an increasingly important role in the world economy principally through their growing importance in world trade (tables 16, 17, 18, 19 and 20). Whereas developing countries accounted for about 18.4 per cent of world trade in 1970, their share increased to 28.6 per cent in 1980 and 26.9 per cent in 1982. The strong trade performance of the developing countries as a group has been led, apart from oil exporters, by the newly industrialized countries and territories of Asia (Taiwan, province of China, Hong Kong, Republic of Korea and Singapore). In addition, the experience of some other middle-income countries of South-East Asia (Indonesia, Malaysia and Thailand) and of Latin America (Chile, Brazil, Mexico, Argentina) prior to the debt crisis has also been notable. Over the same period, the trade performance of the low-income countries of Africa, Asia, Latin America and the Caribbean was comparatively less important, and they achieved only limited increases in their share of world trade.

2. During the same period, South-South trade was a very important component of this overall trade performance. In the 1970s, intra-developing-country trade grew relatively faster and more dynamically than any other component of world trade. A review of these flows since the 1970s shows:

(a) A rapid increase from the 1970s to the early 1980s of all major types of traded goods between developing countries, including exports of consumer, capital and other manufactured goods, with the emergence of the newly-industrializing countries (NICs) as the major suppliers of non-traditional goods among developing countries;

(b) Diversification of trade flows by geographical origin and by type of goods during the 1970s as exemplified by the rising importance of the NICs as manufactured-goods suppliers, and by the sharp increase in the relative importance of non-traditional goods compared with traditional goods in total trade of developing countries (cf. table 21);

(c) Stagnation of South-South trade flows, particularly of developing countries other than the NICs since 1983. This decline in intra-trade has been closely associated with the generally poor performance of the world economy, with the continuing need to divert resources to the servicing of external debt and with the deterioration of the terms of trade of the developing countries in general and the oil exporters in particular. Generally the decline in intra-trade has been concentrated in the developing countries of Latin America and Africa. The major petroleum exporters experienced an especially sharp contraction in their trade after a decade of growth which exceeds that for developing countries as a whole (table 21). The impact of the main external economic factors on the behaviour of South-South trade by different groupings is reflected by the course of the capacity to import, whose sharp decline during the 1980s is largely due to debt-servicing payments. It is noted in this connection that during most of the 1980s macro-economic adjustment programmes were put into effect in all groups of

developing countries and such policies have involved changes in the structure of imports, and changes in investments (tables 22, 23) which also had an impact on intra-developing-country trade.

3. A number of factors have contributed to this performance. Fundamentally, the relative abundance of skilled labour and a favourable environment for foreign investment, particularly in intra-firm trade in the NICs, stimulated exports of labour-intensive manufactures to developed countries, where labour services are generally more costly at similar productivity levels. Similarly, the relative abundance of natural resources in Africa stimulated exports of resource-intensive goods, including tropical agricultural products and minerals, to developed countries.

4. During the 1960s and early 1970s, trade between industrial and developing countries underwent a rapid expansion. In large part, the robust growth of world trade during that period, sometimes at annual rates of 10 per cent in real terms, resulted from substantial reductions of tariffs on manufactured goods in industrial countries. Developing countries benefited from this trade liberalization because tariff levels were lowered on a most-favoured-nation (MFN) basis under the terms of the GATT. a/

5. However, the economic recession of the 1980s created a new era of rising protectionism. This period of recession has been marked in particular by two detrimental events: (a) new forms of trade restrictions that are highly discriminatory, especially on products exported by the developing countries; and (b) the financial squeeze which followed the international debt crisis.

6. The most extensive of the new trade restrictions, covering about 5 per cent of world trade, is the Multifibre Arrangement (MFA) which governs a high proportion of international trade in textiles and apparel. This restriction is especially relevant to developing countries because most exports of apparel originate in developing countries and account for about 20 per cent of developing countries' exports.

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a/ See R. Erzan, J. Goto and P. Homes, "Further Evidence on the Restrictiveness and other Effects of the MFA on Exports of Developing Countries in the 1980s", Swedish International Development Agency, p. 10. Stockholm, June 1989; and TD/B/C.7/91.